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# Credit

AND FINANCIAL MANAGEMENT

AUG. 1941

New Use of Credit Cards — 4    Commercial Credit Analysis — Part IV — 7  
Pledging Accounts Receivable — 11    Freezing Control Affects Domestic Trade — 14  
It's a Credit to be a Credit Man — 18    Investor and the Balance Sheet — 20  
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CHECK & PASS

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# NACM FINANCIAL STATEMENT BLANKS



*Have Been Revised to Meet*  
**MODERN CREDIT REQUIREMENTS**

On the writing, intending \_\_\_\_\_  
[PLEASE ANSWER IN FULL]

ASSETS	Dollars	Cents
Cash (on Hand and in Bank) _____		
Accounts Receivable _____		
(Amount past due \$ _____)		
(Amount Sold or Pledged \$ _____)		
Notes and Trade Acceptances Receivable _____		
(Amount Sold or Pledged \$ _____)		
Merchandise not on consignment or conditional sale (How valued: at cost <input type="checkbox"/> or "at cost or market, whichever is lower" <input type="checkbox"/> ) _____		
Other current assets (describe): _____		
_____		
_____		
<b>TOTAL CURRENT ASSETS</b> _____		
Land and buildings (present depreciated value) _____		
Machinery, fixtures and other equipment (present depreciated value) _____		

## *A Complete View of the Assets*

How Much Past Due  
Reserve for Bad Accounts  
How Much Sold or Pledged  
How Merchandise Is Valued  
Are Land, Buildings, Machinery, Equipment Figured on Proper Depreciated Value

--- INSERTED, WRITE WORD "NONE" ---

LIABILITIES	Dollars	Cents
Accounts payable for merchandise, etc. past due _____		
" " " " " not " _____		
Acceptances and notes payable for merchandise _____		
Owing to finance companies, banks, or others _____		
(Secured by \$ _____ of accounts pledged, assigned or sold)		
(Secured by \$ _____ of notes or acceptances pledged or assigned)		
(Secured by \$ _____ of merchandise inventory pledged or assigned)		
Notes to banks (without security) _____		
Payable to partners, officers, directors, or stockholders _____		
Payable to others _____		
Taxes, interest, rental, payrolls, etc., accrued _____		
Unpaid city and/or state sales taxes, accrued _____		
Other current liabilities (describe): _____		
_____		
<b>TOTAL CURRENT</b> _____		
Mortgage or _____		

## *The Whole Story on Liabilities*

Are Accounts Payable Current  
Do They Pay by Notes or Acceptances  
Do They Sell Their Accounts  
Do They Pledge Their Merchandise  
Can They Borrow Without Security  
Do They Figure Taxes as a Definite Liability

## *Insurance Protection Carried*

Is The Net Worth on Which You Base Your Credit Premium Backed by Proper Insurance Protection

**You will find a NACM Financial Statement Blank  
to Fit Every Class of Trade**

**(Let us send you a Complete Book of Samples.)**

**NATIONAL ASSOCIATION OF CREDIT MEN**

**One Park Avenue, New York, N. Y.**

# Credit

## AND FINANCIAL MANAGEMENT

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*Survey of Trends in Manufacturers' and Wholesalers' Activities*

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Richard G. Tobin  
Editor and Manager

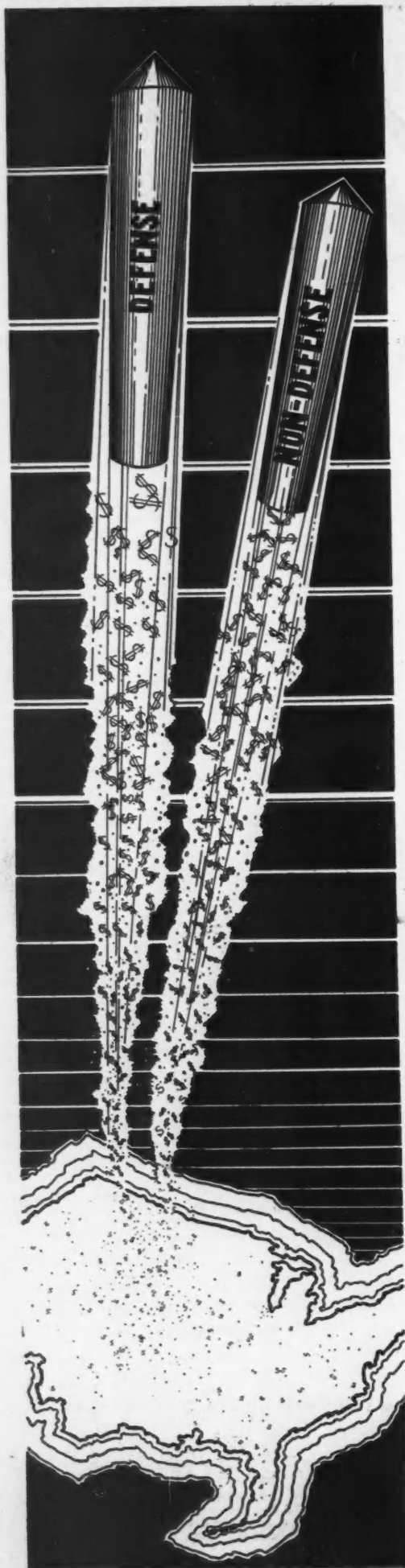
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## Rocketing Costs

**OF** This session of Congress has appropriated 33 billion dollars. That is equal to \$1,100 for every U. S. family. This 33 billion dollar sum, which is 14 billion greater than any previous session's appropriations, won't be spent *entirely* this year. Believe it or not, there is a limit to spending. 33 billions can be appropriated by one session but they can't actually be spent within a similar period.

How are we to balance these appropriations? Partly by higher income and excise taxes—but only partly. For the rest we are going further into debt through bond issues.

There is, however, one added way to meet these defense-stimulated appropriations: by reduction of non-defense spending. Sad to relate, then, is the fact that this Congress actually increased non-defense items by 90 millions over a year ago.

The total of non-defense appropriations must, on the contrary, be reduced wherever possible; an increase during this emergency period cannot be justified.

A look at the spending and debt record is not at all encouraging. In the 1941 fiscal year our governmental units—federal, state and local—are spending 23 billions. In 1914 they spent about 3 billions annually. In '41 their combined debts were approximately 70 billions. In '14 they owed only a little over 6 billions.

There is no defense for non-defense *increases!*

Our people are being asked to sacrifice for national defense. Our representatives in Congress should do no less. Non-defense expenditures are the place to cut. Now is the time.

Henry H. Heimann, Executive Manager, N.A.C.M.

# Dear Mom:



Well, here it is another week-end and I'm not a General yet. But give me time.

Matter of fact, I have too much time on my hands—on evenings and weekends.

The nearest village is 5 miles away. All you find there is a general store, a garage and a canning factory—nowhere to go for any good clean fun, unless you drop in at a smoke-filled juke joint on the way.

Well, Mom, there's a big favor you can do me. The U. S. O. is trying to raise \$10,765,000 to run clubs for us, outside of camp. Places with lounge rooms, dance floors, games, writing rooms. Places you can get a bite to eat without paying a king's ransom.

I know you don't have an idle million lying around, but if you could get the family interested and some of the neighbors, and if that happened all over the country, the U. S. O. could raise \$10,765,000 overnight.

I'd appreciate it a lot, Mom, and so would every other mother's son in the U. S. Army and Navy.

Love, Bill

*They're doing their bit for you. Will you do your bit for them? Send your contribution to your local U. S. O. Committee or to U. S. O., Empire State Building, New York, N. Y.*

## UNITED SERVICE ORGANIZATIONS

These organizations have joined forces to form the U. S. O.: the Y. M. C. A., National Catholic Community Service, Salvation Army, Y. W. C. A., Jewish Welfare Board, Nat'l Travelers Aid Assn.

OPEN YOUR HEART  
OPEN YOUR PURSE  
GIVE TO THE

U \* S \* O \*

This space donated by **THE HOME INSURANCE COMPANY NEW YORK**, Fire, Automobile, Marine Insurance

Credit and Financial Management . . . . . 3 . . . . . August, 1941

# A New Use of Credit Card

## Building Material House Finds It Speeds Deliveries

**EN** The credit card idea is not new, having been used extensively by oil companies, and in one form or another by other retail service organizations for consumer purchases. The Consolidated Rock Products Co. is believed to be the first in the building and construction material industry to adopt the credit card, marking an interesting and distinctly new development in the field of credit service.

It was primarily as a means of breaking the service bottleneck that the Consolidated Rock Products Co., operating a network of plants and branch yards in Southern California for production and distribution of sand, gravel, cement and other types of building materials, recently decided to use credit cards as a convenience to customers in the trading area.

Study of prior experience with the credit card revealed the possibilities of adapting it in a building material organization maintaining branch plants and service conveniences. Heretofore it has been used largely by oil companies with numerous service outlets located in a far flung territory, a fact that has added to the difficulty of effecting the necessary credit control. The Consolidated Rock Products Co. maintains eighteen branch plants and bunkers throughout Southern California, all of them in relatively close proximity to the main office in Los Angeles, which in itself has greatly simplified control over uses, and possible misuses of the credit card.

### Short Test Satisfactory

**A**S the credit card practice was introduced by my firm at the beginning of 1941, it is too early to draw more than general conclusions as to its effectiveness and as to the future possibilities. In this brief period of time it has, however, proven highly satisfactory in every respect. Particularly has it been effective with respect to the speeding up of customer service. The holder of a credit card

By **LEON ROSENBAUM**

*Credit Manager, Consolidated Rock Products Co., Los Angeles, California*

can get service at any of our branch locations with a minimum of delay such as would ordinarily be necessitated by checking his credit standing. For the manager of the branch plant



it has eliminated some detail connected with checking up of the customer's credit record at the company's credit department at the time of making a sale. In addition to delays, the frequent credit check-ups also involved extra expense.

Customers privileged to use the credit card appreciate the convenience of purchasing building materials at any of our locations with the assurance of receiving equally prompt and otherwise satisfactory service. To the building contractor it is a matter of special importance to be able to buy

his materials at a point nearest to the job he is then working on. Such convenience means short truck hauls. It means getting the material to his job quickly and making maximum use of his trucking facilities without unnecessary time lags.

From the standpoint of efficient branch yard operation there have also been definite advantages. More customers can be served in a given time because of the elimination of congestion due to delay in checking customers' credit. Just as soon as the truck is loaded with materials it is ready to leave the premises, making way for others. This is a most decided advantage during peak service periods. Since customers are frequently engaged on rush jobs, many of them related to national defense, the element of quick service is very important.

### Customers Appreciate Service

**T**HAT the special service convenience is greatly appreciated is indicated by the requests we have received from building contractors for such credit card privileges. This, incidentally, has introduced a problem, since as a matter of credit policy the number of credit cards issued has necessarily been limited to Class A accounts. Although we fully appreciate that the credit card has also excellent good-will and publicity value, we nevertheless realize that the idea is still in the experimental stage. Therefore we have not needlessly encouraged its use except by our better class of accounts with good credit standing. We have been especially careful not to go out on a limb by inviting its use by accounts of questionable credit standing.

Nothing has been consciously done to create the impression among our customers that granting of credit privileges automatically entitles to possession of a credit card. It is merely an added service convenience accorded to certain of our accounts. To avoid

any possible misunderstanding on this point we have especially cautioned salesmen not to try to "sell" the credit card idea to their customers and prospects.

Furthermore, partly because of the experimental character of the practice, and partly to view of the possibility of misuse, we have found it necessary to set up a separate control in addition to that normally maintained in the credit department.

The credit card was originally issued to each of approximately a thousand choice accounts on our books, these having been selected on the basis of previous credit experience over a reasonable period of time. As an added safeguard, we adopted the practice of issuing the card for a period of only three months, subject to renewal for additional quarterly periods. The expiration date is printed plainly on the face of the card, along with name and address of the customer, and his credit card number. For the purpose of identification, the customer is also required to sign his name on the face side.

#### Terms Quite Explicit

**A**TENTION is directed particularly to the terms and conditions printed on the reverse side of the card. To avoid any possible misunderstanding, the terms have been made very explicit, the wording being as follows:

"The person to whom this credit card is issued is authorized to obtain material from any branch of Consoli-

dated Rock Products Co., said material to be paid for in full on or before the 10th of the month following date of purchase.

"The card is valid only during the brief period shown thereon and should be signed in ink immediately upon receipt. This card may be cancelled and further deliveries withheld should Consolidated Rock Products Co., in their judgment deem such action advisable. Upon such advice customer agrees to immediately return this card to the General Office of Consolidated Rock Products Co. at Los Angeles."

Further provision is made covering loss or fraudulent use of the card, as follows:

"Should customer permit any other person to have this card, said customer promises and agrees to be financially responsible for any purchases made by such person. In the event of loss of this card customer should immediately notify Consolidated Rock Products Co., otherwise it will be assumed that the holder of this card has customer's authority for its use. Notify Consolidated Rock Products Co. IMMEDIATELY of any change of your address.

"The acceptance of this card by the holder constitutes his full acknowledgment and acceptance of the foregoing conditions."

It is interesting to note in this connection that in a number of instances it has been necessary to supply a customer with several credit cards for use by his employees. This, however, is

done only when the customer specifically requests it, fully realizing the risks which this practice involves. In fact, when mailing the quarterly cards to the list of selected customers the possibility of effecting such an arrangement is suggested.

#### Some Decline Cards

**I**T might also be added that in only a few cases have customers declined to accept credit cards. These are usually highly reliable firms that prefer to use their own purchase order forms which are essential parts of the office control. Branch plant employees are properly informed of such cases so there should be no delay whatsoever in giving them service.

There are several special points of interest about the credit card and the method of presenting it to the customer. First, the card is compact enough to fit into a billfold, together with a driver's license. It is in the form of a folder, the inside bearing a map of Southern California showing the location of our branch plants and offices. Printed on fine stock, with a lithographed reproduction in color of one of our trucks, the card is protected by a cellophane covering.

For mailing to a customer the card is inserted in a folder the size of a greeting card. The folder contains a list of our locations, a description of our products, and a brief message describing the service. It emphasizes the added convenience of making pick-ups of building materials at any

One of the Consolidated Rock Products Company's Plants Near Los Angeles



DATE \_\_\_\_\_

BUSINESS NAME \_\_\_\_\_ PHONE NUMBER \_\_\_\_\_

FULL NAME OF PRINCIPALS \_\_\_\_\_

BUSINESS ADDRESS \_\_\_\_\_ CONTRACTOR'S LICENSE NO. \_\_\_\_\_

RESIDENCE ADDRESS \_\_\_\_\_ KIND OF CONTRACTOR \_\_\_\_\_

FORMER ADDRESS \_\_\_\_\_ HOW LONG AT PRESENT ADDRESS \_\_\_\_\_

NAMES OF FOUR FIRMS WITH WHOM YOU HAVE ESTABLISHED CREDIT

NAME	ADDRESS
1. _____	_____
2. _____	_____
3. _____	_____
4. _____	_____

BANK WITH \_\_\_\_\_ BRANCH \_\_\_\_\_ KIND OF ACCT. \_\_\_\_\_  
(CHECKING SAVINGS LOAN)

DO YOU OWN REAL ESTATE? \_\_\_\_\_ VALUE \_\_\_\_\_ ENCUMBRANCES \_\_\_\_\_

HOW LONG IN BUSINESS FOR YOURSELF \_\_\_\_\_

ESTIMATED MONTHLY CREDIT REQUIREMENTS \_\_\_\_\_

DO YOU CARRY WORKMEN'S COMPENSATION \_\_\_\_\_

AND PUBLIC LIABILITY INSURANCE? \_\_\_\_\_

(THIS APPLICATION MUST BE COMPLETELY FILLED OUT IN INK)

**Note Completeness of Information Given in Application Form Which Is Filed to Obtain Credit Card.**

## CREDIT CARD NO.

DATE \_\_\_\_\_  
SALESMAN \_\_\_\_\_  
NAME OF FIRM \_\_\_\_\_ PHONE NO. \_\_\_\_\_  
BUSINESS ADDRESS \_\_\_\_\_ LICENSE NO. \_\_\_\_\_  
PRINCIPAL \_\_\_\_\_ KIND OF CONTRACTOR \_\_\_\_\_

[illegible]

**The Office Record Card Gives Complete Information  
of Credit Record and Purchases.**

Bunker or Plant \_\_\_\_\_ Date \_\_\_\_\_, 194\_\_\_\_  
(Show Name — Not Number)

[illegible]

THIS FORM MUST BE SENT DIRECT TO CREDIT DEPT. EACH DAY

**Daily Report Sheet by Branch Yards Keeps Credit Dept.  
Posted on Credit Card Sales.**

of our branches "nearest to your job" without loss of time. Attention is also called to the expiration date of the quarterly period specifying the date when a new card will be sent for the next quarter.

During the first quarter many availed themselves of the service. From many standpoints the experiment was a success. It is well to note that practically all of the thousand credit cards were renewed for a

second quarter. However, a number of things have been ironed out, details connected with analysis of credit card sales, the effecting of close cooperation with branch yards regarding the proper handling of such sales, handling of applications for credit cards, and the like. It has been necessary to design special forms to effect the closest possible control.

**F**IRST, a master office record is kept for each credit card. The information noted on this card is very



**Credit Cards Are Mailed in Attractive Folder.**

complete, including also the credit card number, name and address of the firm, kind of contracting business, name of our salesman contacting them, and so forth. It has space for noting trade references and coded credit information, and monthly purchases. This record provides a handy medium for checking the advisability of renewing the credit card at the ex-

YOUR CONSOLIDATED CREDIT CARD  
APRIL TO JUNE

We hope you have found the credit card which expires March 31st a convenient means of making pick-ups at our branches.

The purpose of the credit card is to facilitate identification and avoid delay, thus making it easy for you to use our branch nearest to your job.

Please sign the card, carry it with you and use it at any of our branches or plants. If there are others in your organization who should have one, write us or call us and the necessary arrangements will be made.

CONSOLIDATED ROCK PRODUCTS CO.

**This Form Is Used for Sending  
Out New Cards.**

piration of each quarterly period, as well as for general analysis of the operation of the credit card plan.

For day to day control we have designed a special form known as "Report of Credit Card Sales." Each branch or plant is required to send in this report at the end of each day, noting thereon the name of each customer making such purchases, in each instance the credit card number and sales ticket number, along with the quantity of material (*cont. on p. 37*)

# Commercial Credit Analysis IV

## Place of Working Capital in Credit Picture

**C**As the net excess of current assets over current liabilities, working capital represents the dollar margin of current asset protection that is available to current creditors at the date of the balance sheet. This dollar margin does not necessarily vary with the rise and fall of current liabilities as it is affected in amount in only three ways:

1. Through an increase or decrease in net worth.
2. Through an increase or decrease in net non-current assets.
3. Through an increase or decrease in non-current debt.

If a special segregation is given to reserves and deferred credits on the liability side of the balance sheet, then increases and decreases in these items will increase or decrease working capital, respectively, just as it is affected by an increase or decrease in net worth or non-current debt.

Net operating gains or losses are ordinarily reflected, of course, in increases or decreases in net worth and working capital tends to rise or fall by like amounts. However, the net operating profit or loss is usually stated after write-downs, in effect, of certain non-current assets through depreciation, depletion or amortization charges. Therefore, working capital tends to increase, not only by the amount of an operating profit, but also by the amount the non-current assets are reduced by depreciation and other operating charges. Similarly, the adverse effect of a net operating loss on working capital is softened or counteracted to the extent of these charges.

### Working Capital to Current Debt

**S**INCE working capital does not necessarily vary in amount with the rise and fall of current liabilities, the margin shown at the balance sheet date is likely to approximate the amount of *ownership capital and long-term creditor capital* that will be invested in current assets throughout

By **EDWARD F. GEE**

*Assistant Cashier, State-Planters Bank and Trust Co., Richmond, Va.*

the year. The remainder of the funds required to carry the necessary current assets will have to be supplied by current creditors and it follows that the debt created for this purpose should be reasonable in relationship to the working capital base on the strength of which it is built.

Stated another way, when a bank makes a loan to a business it is lending along with other creditors against a margin of marketable securities. That margin is represented by the working capital of the business which does not necessarily vary in dollar amount with the amount of credit extended. Therefore, the estimated peak current debt of the business during the period in which the bank loan will be outstanding should be related to the amount of working capital shown by the balance sheet just as the amount of a loan against marketable securities is related to the margin of securities offered. The peak current debt of a business should not be excessive in relation to its dollar working capital no more than should an excessive loan be granted against a given amount of marketable securities.

The parallel follows to the further extent that the relationship of working capital to peak current debt in a business should be governed by the soundness and liquidity of its current assets just as the ratio of the margin required on a loan against marketable securities is determined by the soundness and liquidity of the securities offered.

### Fixed Assets

**A**CCOUNTANTS define as fixed assets those assets of a relatively permanent nature, such as land, buildings, machinery, equipment and fixtures, which are used in the operations of the business and are not intended for sale<sup>5</sup>. They are usually

carried at cost or at some infrequently adjusted appraisal figure, net of related reserves for depreciation, and the effect of fluctuating price conditions on their market value from year to year is ignored as they are not intended for sale. Idle land, buildings, machinery, etc., are excluded from fixed assets as defined because they are not used in the operations of the business.

The creditor's interest in the fixed assets of a business is primarily to the extent that they are adequate enough for its needs over the immediate future, efficient enough to insure a strong competitive position on the basis of manufacturing cost or merchandising facilities, and in such physical condition as to render unlikely an undue drain on operating income or existing working capital for excessive repairs and replacements. Liquidating value should be a definitely subordinated consideration in the extension of a commercial bank loan. As it is frequently pointed out, "in some cases of liquidation it happens that the fixed assets realize only about enough to make up the shrinkage in the current assets<sup>6</sup>."

However, the analyst does have a real interest in the extent to which the valuations placed on fixed assets serve to inflate the net worth of the business unduly. He relates the net worth shown to debt, sales, and other factors, both within and without the business in an effort to estimate balance sheet strength and the significance of these relationships is largely vitiated if net worth is unwarrantedly inflated by write-ups of plant or other excessive fixed asset valuations. Reviewing the reports of competent professional appraisers, if appraisals have been made, is reassuring to confidence in the integrity of the valuations used.

**T**HE accounting concept of the principle of making periodical reserve

<sup>5</sup> Graham and Meredith, "The Interpretation of Financial Statements" (Harper & Brothers, New York, 1937), p. 55.

provisions for depreciation against fixed assets is that it is a device for spreading the cost of these assets over the years of their useful life in a more or less equitable manner<sup>7</sup>. Thus the cost of a factory machine represents, in effect, a deferred charge to the operations of the periods which stand to benefit by its use. These periodical charges are accumulated in a reserve for depreciation rather than applied directly as a write-off of the asset in order that the original record of cost may be preserved for accounting convenience<sup>8</sup>.

However, the amount of the accumulated reserve for depreciation against fixed assets is regarded by some analysts as having more than ordinary significance in an appraisal of balance sheet proportions. Alexander Wall has for several years stressed what he terms "the current debt characteristic of depreciation reserves" and even goes so far as to recommend that a "depreciated working capital" be computed on the basis of current assets minus the total of current debt and accumulated depreciation reserves<sup>9</sup>. The theory is that the larger the depreciation reserves become the closer approaches the day when the related fixed assets will have to be replaced if the business is to continue to produce or to operate on its accustomed scale. Their replacement will either diminish working capital or result in an increase in debt, frequently current debt. Therefore, as the mounting size of the depreciation reserve warns of the imminence of plant replacements, it is incumbent upon the analyst to see that the working capital position of the business is being strengthened apace in order that it may comfortably withstand the inevitable impact of restoring fixed assets to the level required for continued operating adequacy and efficiency.

The ratio of net fixed assets to net worth is a helpful proportion in gauging or detecting a tendency toward the twin evils of inadequate working capital or over-investment in plant and the relationship of sales to net fixed assets is rather widely used as a proportion reflecting on the relative

productivity of the plant investment. The ratio of mortgage liabilities to the underlying fixed assets is used to ascertain the position of mortgage-holders with respect to the book value of their security.

#### Intangible Fixed Assets

THE prudent analyst will in most instances, we believe, throw out of his consideration of the financial figures the asset value of such intangible items as goodwill, trademarks, patents, copyrights, franchises, leasehold improvements, etc., by deducting the total from net worth. They are difficult to evaluate and their liquidating value, in most cases, is highly problematical. This does not mean, however, that they are removed entirely from the credit picture as it is entirely possible that the value of an intangible asset may well be the deciding factor in a credit decision.

The circulation rights of a newspaper, for instance, may represent its most valuable asset and thus have a material bearing on the soundness of a credit. The deduction of intangible assets from the net worth shown in the balance sheet merely takes them out of the realm of figures where the uncertainty of their value may be misleading and places them over under the economic factor along with other general considerations which are also important but which are similarly elusive of definitive evaluation.

Accounts and notes receivable from officers, employees, and stockholders should be conservatively classed as non-current assets even though they may have arisen in the normal course of business. The income and financial responsibility of these individuals is ordinarily so interlocked with the welfare of the business itself that such accounts may prove to have little or no liquidating value in the event of business difficulties.

Not infrequently, accounts of this kind may be used as a device for aiding financially weak principals without sullyng a good operating record by increasing salaries. Working capital, of course, is drained away to the extent of the advances made and the position of creditors is weakened. Thus it is wise to provide for the control of these accounts in loan agreements and to keep the total under close surveillance in comparative statement analysis.

WHILE the accountant usually makes no distinction in his balance sheet classification of deferred charges and prepaid expenses,<sup>10</sup> it has been recommended by some writers that the analyst recognizes a difference in the characteristics of the two, particularly where the total amount involved is large.<sup>11</sup>

It is felt that such prepaid items as prepaid insurance, prepaid rent, and prepaid interest, should have some cash value in liquidation, while organization expenses, unamortized bond discount, advertising expenses, and other expenditures which may be properly deferred to future periods as an accounting expedient, plainly would have no value whatever in liquidation. As a matter of fact, in computing the net worth of a business for analytical purposes, deferred expenses such as those last mentioned should be eliminated from the total along with goodwill and other intangibles in the balance sheet.

Since by deferring operating charges to subsequent periods a business can improve its current operating results and at the same time maintain an artificially high net worth, the analyst should be fully informed as to the make-up of the deferred charge asset and keenly alert to unexplained advances in its total.

The interest of the short-term bank creditor in the non-current debt of a business may be summed up for all practical purposes in just three questions:

- (1) How fast will it have to be provided for?
- (2) How definite is its deferred maturity?
- (3) How will it rank in liquidation?

The first point involves the determination of maturities, interest burden, and sinking fund provisions; the second, the determination of the existence and nature of accelerative terms; and the third, the determination of the existence and extent of specific liens or encumbrances on assets.

It is always advisable to have a thorough understanding of the nature and terms of non-current debt and this can best be obtained from a study of the underlying indenture, if an

<sup>7</sup> Finney, *op. cit.*, p. 267.

<sup>8</sup> Finney, H. A., "Introduction to Principles of Accounting" (Prentice-Hall, Inc., New York, 1933), p. 177.

<sup>9</sup> Wall, *op. cit.*, pp. 19-20.

<sup>10</sup> Finney, "Introduction to Principles of Accounting," *op. cit.*, p. 167.

<sup>11</sup> Wall and Duning, "Analyzing Financial Statements" (American Institute of Banking, New York, 1930), p. 119.

indenture is used. Frequently, the indenture will provide for a minimum working capital position, a minimum current ratio, a maximum debt total, or contain other restrictive provisions, the violation of any of which will accelerate the maturity of the entire deferred debt issue. Full cognizance should be taken of the likelihood of having these penalty provisions invoked for they may materially alter the aspects of a current credit.

### Total Debt

THE extent to which the owners of a business rely on creditors for the funds necessary to carry its assets is evidenced by the total of all indebtedness. It is usually considered desirable that this total stay well below the total of funds supplied by the owners, as indicated by the net worth figure, on the theory that the owners of a business should have a greater monetary interest in its assets than its creditors. However, there are exceptions to this principle. Where the current asset protection is unusually strong, because of a concentration in liquid receivables as in a finance company, or because of a concentration in readily marketable and perhaps well-hedged inventories as in a listed commodity dealer, it is not considered improper for total debt to rise to a figure well in excess of net worth.

The relationship of debt to worth is thus an important balance sheet proportion that is deserving of close and constant attention.<sup>12</sup> It should be borne in mind that the ratio shown at the close of a natural business year should ordinarily be relatively low to allow for reasonable seasonal expansion during more active borrowing periods.

### Net Worth

A REVIEW of the component elements of net worth, particularly in a corporation, has a significance in itself. A large preferred stock issue suggests that progress from retained earnings may be restricted by heavy dividend disbursements. It is perhaps preferable that the bulk of net worth be in capital stock rather than in surplus because of the ease with which surplus may be paid out in dividends. A classification of surplus as

to earned surplus, capital surplus, and surplus arising from the reappraisal of assets, gives some clue to the operating history of a business and discloses the extent to which net worth has been bolstered by unrealized write-ups in asset values. Thus each account in the group may have its story to tell.

Since a preferred stock issue may carry certain protective clauses, such as a provision for the maintenance of a specified working capital ratio or



Mr. Gee's Article in the September Issue Will Discuss Inventories and Receivables and Their Place in the Balance Sheet.

for building up a sinking fund, or, in some states, may even be given the characteristics of quasi-funded debt by designating a redemption due date at a price fixed in advance,<sup>13</sup> the careful analyst will definitely ascertain the terms of preferred stock agreements.

The adequacy of the net worth of a business is determined in part by its relation to the volume of business transacted. The ratio of net sales to net worth is therefore a means of calculating the extent to which a business has achieved a balance between the opposing evils of overtrading, on the one hand, and insufficient sales, on the other. The significance of such a relationship is magnified considerably when it can be compared with the

ratios shown by other enterprises in the same line of business.

### Contingent Liabilities

AN appraisal of the balance sheet is not complete without a consideration of the extent and reasonable imminency of those liabilities which, because of their indirect nature, uncertain existence, or indefinite amount, have not been taken into the books of account. The more common contingent liabilities of this kind are represented by:

1. Notes receivable discounted with recourse.
2. Accounts receivable assigned with recourse.
3. Endorsements on accommodation paper.
4. Guarantees of the liabilities of others.
5. Pending lawsuits.
6. Goods sold with guarantees of quality or performance.
7. Construction commitments.
8. Purchase commitments.
9. Liability for additional taxes.
10. Cumulative preferred dividends in arrears.

Without diminishing in any way the importance of the others, particular attention is directed to two of the types of contingent liabilities listed. Specific guarantees of the quality or performance of goods sold are frequently overlooked in the preparation of financial statements though actually a liability of this kind might well be provided for by a special reserve in the balance sheet. Past experience should show the probable expense of making good on such guarantees as may be outstanding at a given statement date and conservative accounting practice would require that a reserve of this amount be set up by a charge to Profit and Loss.

Purchase commitments, the other form of contingent liability on which we shall comment briefly, should be viewed in relation to the requirements of the business and the trend of the market at the statement date. Relating the total to the materials consumed or purchases made in the period just ended enables an estimate to be made of the extent to which the business has assumed a speculative position in the market. If the market is rising, ordinary commitments assume no importance; if the market is falling, the operations of the subsequent period are likely to suffer in proportion to the quantity of disad-

<sup>12</sup> This relationship may be frequently expressed as the ratio of worth to debt. Since worth is the relatively constant factor and since a more logical thought sequence is followed by relating fluctuating debt to a base of net worth, we prefer to use the ratio of debt to worth.

<sup>13</sup> Paton, W. A., "Accountants' Handbook" (The Ronald Press Company, New York, 1935), pp. 914-15.

vantageous purchases which have been arranged.

In manufacturing establishments, it is usually significant to relate purchase commitments to orders on hand at the statement date. A comparison of this relationship from period to period provides an enlightening index of the extent to which the business may be long or short on its requirements and discloses the existence of speculative tendencies on the part of the management.

#### Internal Comparative Analysis

PERHAPS the first step that an analyst will take in the analysis of a balance sheet is to make a comparison of the dollar figures with those shown as of the same date in the preceding year or years. Increases or decreases will be noted and mentally or literally set down as good, bad, or indifferent, as a starting point for the determination of the causes and justification of the significant changes or trends shown. Ratios of important balance sheet proportions may then be calculated and their strength considered both from a static standpoint and in comparison with the relationships that have been shown in preceding exhibits. From there the analyst may go further into the make-up of the more prominent balance sheet accounts, primarily to satisfy himself of the soundness of the assets or to determine what additional information will be necessary to warrant a reasonable conclusion of this kind.

As a means of facilitating and enhancing the value of balance sheet comparisons, Gilman favors the use of what he terms the "trend percentage method" of measuring changes in business figures from period to period.<sup>14</sup> Under this method, each item in the first balance sheet of a series is given a value of 100% and the same items in succeeding statements are expressed as a percentage of the first in the series.

A trend study of this kind is undoubtedly a tremendously helpful adjunct to the credit man's array of analytical devices but like any other single tool with which he works it has its limitations and should not be used to the exclusion of the others. The trends of certain statement items have

<sup>14</sup> Gilman, Stephen, "Analyzing Financial Statements" (The Ronald Press Company, New York, 1934), p. 112.

no significance in themselves but must be related to the trends of other factors to be given a practical meaning. Further, dealing in percentages only places undue importance in small dollar changes when the base figure itself is small in amount. As a final weakness in the use of this method, it may be pointed out that the dollar amounts and internal proportions of the base statement chosen may happen to be grossly unbalanced which, in turn, might distort substantially the significance of subsequent trend percentages.

#### Broadcast

■ A nationwide audience heard N A C M Exec. Mgr. Henry H. Heimann in a half hour forum panel discussion of current business and national problems on Thursday, July 17, over the Blue network of the National Broadcasting System. Mr. Heimann appeared with Paul F. Warburg, Director of the American Arbitration Association; George Meany, Sec., American Federation of Labor; and W. Gibson Carey of the Yale and Towne Manufacturing Co., who is a past President (1939-40) of the U. S. Chamber of Commerce.

NOT only should balance sheet proportions be studied with respect to internal trends but they should be related to the proportions shown by competitors and by other concerns in the same line of business. A business may be progressing at a moderate and ostensibly satisfactory rate but if the industry as a whole is showing more rapid progress then the enterprise under consideration, from a relative standpoint, may actually be in a decline. It is obviously of fundamental importance in comparisons of this kind to be sure that the business is comparable in every respect to a practical degree with the other organizations with which it is compared.

The use of so-called "common-size" or "component percentage" statements greatly facilitates external comparative analysis. This simply means that the total footings of a balance sheet are given a value of 100% and each component item in

the statement is then stated as a percentage of the total. Confusing variations in dollar size between two statements are thus eliminated and all elements are reduced to the more significant comparative basis of proportions only.

The reduction of balance sheet items to a common denominator in this manner is also of practical value in internal comparisons as it permits a series of statements to be compared with striking and exclusive emphasis on the relationship of each item to the balance sheet total.

Alexander Wall has evolved an interesting analytical device by which the position of a business is indexed from period to period in relation to the moving position of the trade or in relation to an average of its own position over a base period, through a comparison of certain important and arbitrarily weighted ratios. Reference is made to his volume, *How to Evaluate Financial Statements*, for an exposition of the use of this method.<sup>15</sup> Suffice it to say at this point that such a ratio index affords a valuable means of determining the trend of a business as a whole, particularly with reference to its position and movement in relation to the trade.

#### Concluding Comments

IT cannot be stressed too greatly that neither balance sheet ratios nor internal or external comparisons of trends and proportions purport to give a final answer entirely in themselves. Just because a summary of the accounts of a business on the same day of each year does not show the existence of improved relationships over preceding periods or does not reveal proportions as strong as the average of others in the line as of the same day, does not necessarily mean that no progress has been made or that the business is weaker than the average in the trade. We have certain definite leads and indications that point to these conclusions but there may be special conditions or circumstances, of a temporary nature perhaps, which may modify substantially the meaning of fluctuating figure proportions. The important thing is to bring out in sharp relief these changed conditions and trends and then, if necessary, to delve behind the figures into the underlying basic situation to probe its fundamental soundness.

<sup>15</sup> Wall, op. cit., pp. 68-81.

# Pledging of Accounts Receivable

## Effect on Credit Picture

**I**n a discussion covering the hypothecation of accounts receivable and the pledging of merchandise inventory for loan, there are many viewpoints and interests to consider and bring out into the open. With this truth in mind, I shall attempt to give you my thoughts from three points of view, namely:

First—The merchant or manufacturer, whom we shall term the seller.

Second—The bank, finance company or individual, whom we shall term the buyer.

Third—The unsecured merchandise supplier, whom we shall term the creditor.

Now, let us look behind the scenes with the manufacturer's position our problem. To say that it is unsound or unethical for him to hypothecate, assign, or pledge his accounts or merchandise for a loan is far wide of factual truth. In many cases it is good business for him to do so. Granted a strong and sound fixed asset position, it is usually a slow, cumbersome and complicated process to raise cash as and when needed on such assets.

Assuming the seller is operating in a line that deals with seasonable goods, we must realize that the preparation of inventory and advance selling on long terms can readily tie up working capital to an embarrassing point. Likewise, in this era of sharp rises and falls in prices, a smart buyer who is in position to take advantage of a bargain will buy more raw or finished product than can currently be disposed of and converted into cash. In cases of this nature, I hold that it is a sound practice to raise cash by temporary conversion of accounts receivable or merchandise inventory.

Of course, it is agreed that the cash thus raised be properly expended in payrolls, cash discounts, current op-

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erating expenses and other pressing obligations.

The alert credit man will either merit the confidence of the seller and be informed of such transactions or he will have ways and means of learning about it. On the other hand, a sound and progressive business will have no reason or motive for keeping it secret. A case came to my attention not long ago where records proved conclusively that this nature of temporary loan produced more than the cost of the financing in cash discounts alone, not to speak of stepped up production and the consequent lower unit cost.

### Danger for the Merchant

**N**OW, we will consider the merchant or retailer who seeks relief in this fashion. The same reasoning will apply as in the case of the manufacturer, though fraught with more danger to the creditor and subject to more close analysis. Much too frequently this financing is born of desperation. It will be obvious that, if this seller has tied his money up in slow and questionable accounts and excessive or perhaps obsolete inventory, the financing will take the cream of those assets and merely defer the evil day of reckoning.

Again, the wide awake credit man will have observed a slowing up in payments (and here I cannot stress too strongly the value of our own trade clearances. I know of no better medium for detecting distress in its infancy). He will have had his warnings and, as a result, pull out of the account entirely or sharply curtail his investment, in accordance with his judgment and knowledge of his customer.

I cannot conceive of financing in a

case of this nature leading to anything but an eventual loss to the unwary creditor, because the lender will protect his investment by ample margins to cover principal, interest and collection expenses in the event forced liquidation becomes necessary, thus consuming live assets to the detriment and possible failure of the seller. Lack of time will not permit the mention of intermediate cases between these two extremes and it is my purpose to state that the hypothecation of accounts receivable and pledging of merchandise for loan can be sound or unsound, depending on the merits of each case.

### Banks Like Such Loans

**N**OW, let us consider No. 2 position, the bank, finance company, or individual lender. Driven to the necessity of finding new uses for money, banks in general have entered the field of lending in a manner that would never have been considered a few years ago. Finance companies have sprung into being by leaps and bounds, and individual investors are seeking ways to lend money on a profitable and secure basis. With such abundance of surplus funds, it is not at all surprising that finance has turned to lending money on accounts receivable and merchandise, which situation is entirely sound, practical and profitable to finance.

I will not go into the mechanics of lending against accounts receivable, except to touch upon the method employed, namely notification or non-notification basis. Generally speaking, it is preferred by both buyer and seller that non-notification govern. The seller does not, in many cases, wish his customers to know that he is assigning his accounts receivable and liquidation of those accounts is more certain to the buyer when paid direct to the seller. All of us have no doubt experienced the painful job of collecting accounts created by a

predecessor firm or on a discontinued territory.

Essentially, the non-notification method is desirable, in that the books of the seller are audited and inspected frequently by the lender, especially where a large volume is involved. The seller thus receives the benefit of sound banking advice, credit checkings on the accounts and analysis of general operations. It will be obvious that in the case of a sound and progressive business, the field of finance supplies a constructive and needed function for temporary relief.

On the other hand, if an assignment is taken to protect or bolster a previous bad loan, a ruthless attitude may logically develop, ending in commercial demise of the seller. Unfortunately, there are some unscrupulous lenders who have only one objective, that of catching a seller in distress, exploiting him through exorbitant charges, and fees, and without regard for the outcome. There can only be one answer to such a situation—failure in short order.

I might mention at this point that under the Chandler Act incident to Bankruptcy, there is some question as to whether or not accounts receivable assigned but not notified would give the assignee prior right over other creditors. Court decisions are in wide conflict on this point. Conservative finance therefore is very cautious about taking such assignments, accepting them only on a notification basis, or non-notification where the strength and integrity of the assignor is unquestionably favorable.

#### Several Special Laws

**FINANCE** has made rapid strides in lending money on merchandise, again because of a need for productive and safe usage of surplus funds. Laws have been enacted in the various States which govern the amount in percentage of capital funds that banks can lend on warehouse receipts. The laws vary widely in the various States and are a very interesting study. Also, the nature of the product is of great importance in determining the amount the bank will risk in relation to market value, market fluctuation, spoilage, obsolescence and saleability being important factors.

The use of independent warehouse receipts which require that loans be liquidated before product is released is necessarily limited to product that

can be stored in central warehouses with only general facilities. To meet this difficulty, a new method of warehousing has recently come into use. It is known as field warehousing and does away with the central warehouse. Storing can take place on the premises of the borrower or at any convenient place conducted by a public warehouseman who is independent of both borrower and lender. Bulky commodities such as Iron Ore, Oil, Coal, Lumber cannot be stored in a central warehouse because they require special facilities, are too cumbersome to move about, and too expensive to handle.

Primarily, Field Warehousing is the storage of goods by the owner with a bona fide public warehouseman in some place other than a central or public warehouse operated as such. It entails the creation of a public warehouse solely for the purpose of the particular operation at the place where the goods are normally kept, or in any convenient place. A ware-

house, in this sense, is actually a legal status. The place of storage may be any structure or even a plot of ground. Field warehousing is conducted ordinarily for credit purposes only. The integrity and responsibility of the public warehouseman must be checked, he being the custodian of the property and authorized to issue warehouse receipts against it. It is always preferable and desirable to deal with a bonded warehouse. Those of us who are not thoroughly familiar with this form of warehousing would be wise to read up on the subject as the method is comparatively new and growing rapidly.

Another method used by finance is the recorded bill of sale to all inventories, on a revolving basis, meaning that future inventory additions are included in the original bill of sale. This method requires frequent and expensive checking to determine values, and is generally used only when the inventory is small and the entire inventory covered.

*Refinance Corporation*  
• Factors •  
for

317-321 C.C. Chapman Bldg  
Broadway at Eighth St.  
Los Angeles, California

194

To \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Attention: Accounts Payable Department.

Gentlemen;—

Your check No. \_\_\_\_\_, dated \_\_\_\_\_ and tendered us on the account of client mentioned above, is returned herewith for the following reasons;

- ☐ EXCESSIVE DISCOUNT DEDUCTED: Invoices clearly indicated, "Objections to prices or terms, Please let us have corrected check. in order to receive consideration, must be reported at once direct to REFINANCE CORPORATION."
- ☐ CREDITS DEDUCTED WE KNOW NOTHING ABOUT: Invoices clearly indicated, "No credit or deductions will be allowed or any returns credited upon this bill unless notice of claim therefor is made immediately after receipt of goods to REFINANCE CORPORATION and consented to by them." Please let us have corrected check.
- ☐ ANTICIPATION DISCOUNT DEDUCTED: We do not allow anticipation; please pay bill when due according to terms shown on invoice.

Very truly yours,  
REFINANCE CORPORATION

Form 1 AN

**How Do You Handle Discount Chiselers? Here is a Form Used by One Company for Returning Checks Showing Unearned Discounts**

Another method is the non-recorded Bill of Sale, a separate room or compartment being specified for the storage of the inventory covered. Similar checking for value is necessary, but less complicated, and goods can be kept under lock and key. This method is desirable where the borrower does not choose to tie up his entire inventory.

I think we are all agreed that finance has assumed an important place in the credit structure through the granting of loans on accounts receivable and merchandise inventory, thus taking up the slack between buyer and seller and relieving the creditor of a financing load which he has

as they do our product in original state or converted one step nearer to cash, as an account receivable.

We credit men are frequently assuming a financing function, without coverage of any nature, when, in the case of rising markets, or the disposal of excess product, we grant longer than accepted terms in helping the customer to carry the load. In many instances, especially in the packing house industry, excess purchases of product such as shortening, oil casings, gelatin and canned goods quite frequently take place. We are guilty of overselling beyond the ability of the purchaser to dispose of and liquidate the product within the customary

### Ohio requires notice of account assignment

Columbus—A bill requiring the assignor to file an affidavit of intention to assign his accounts receivable was signed by Governor John L. Bricker of Ohio in June. This is of interest to firms doing business in Ohio. The bill is designed to make such assignments a matter of public record for the protection of assignees and those extending credit to the assignor. The affidavit of intention to assign accounts receivable must be filed with the county recorder of the county in which the assignor of the account resides.

sometimes been required to carry against his wishes and financial ability to do so.

#### Let the Creditor Beware

NOW we come to the viewpoint of the creditor, the third party who has a stake, and a large one, in this discussion. We use the infallible yard stick of current ratios in determining our prospects of collecting for our deliveries. Aside from proper consideration of long pull prospects as reflected by figures below the current classifications, we rely greatly on the balance between current assets and current liabilities, customarily referred to as working capital, for our current performance. We are justly entitled to protest vigorously against any tampering with steps 2 and 3 in current assets, namely accounts and notes receivable and inventory. They rightfully belong to us, representing

term period, likewise beyond his financial ability to pay when due. When bills are not paid in accordance with industry terms, commercial credit ceases and financing begins. This places us in the category of a lender, but I presume that, as long as we have aggressive selling organizations, we will have this evil to combat.

We must at all times work closely with our sales department in analyzing the advisability of selling in excess quantities, having in mind heavy tax burdens, market fluctuations and unexpected set-backs. The proper handling of these problems constitutes a very delicate problem, having in mind that we are injuring an entire industry program of terms when we indulge in special concessions, primarily for the sake of increasing our volume at the expense of turnover and credit hazard.

I HAVE pointed out that, in many instances, the pledging of those assets is sound and legitimate on the part of the seller. I have also recorded that the buyers of these values perform a legitimate function and a valuable one. This is, of course, with the thought in mind that the buying and selling is properly conducted, for good and valid reason and not tainted in any manner by irregular or dishonest intentions. Where an intent to defraud exists, there is little we can do about it under existing conditions. Financial statements, honestly prepared, would record the financing of account or merchandise, but unfortunately too many are on an annual basis, or at best semi-annual, and a dishonest debtor could obviously dispose of his assets the day after the statement was issued. There is no way we can enforce notification of intent to assign accounts or merchandise. Long ago, it was determined that it was not right for a merchant to receive merchandise on credit and be permitted to later sell his stock in trade without giving notice to his creditors, thus affording them opportunity to protect themselves.

This reasoning was so sound that laws were enacted regulating the sale of goods in bulk and such laws are now in force in every State of the Union. While the Bulk Sales Statutes do not regulate disposal of accounts receivable, the general effect of those statutes has had a deterrent effect upon dishonest and fraudulent or secret transactions. Those who sell their product on conditional sales contracts, or retain title contracts, are strictly regulated by Law, as to recording, filing and rights and remedies. This regulation has not retarded installment selling and has been accepted as a constructive requirement in the same manner that the Bulk Sales Statutes are accepted.

Likewise, chattel mortgages and other conveyances are made a matter of record for the protection of third parties. Why then, should it not be proper and correct to require that the hypothecation, assignment or pledging of accounts receivable or merchandise be made a matter of record, and enforced by legal statute? I am firmly convinced that the enactment of such laws would greatly strengthen the credit structure and promote sound, fair and equitable business relations for the common good of the greatest number.

# How "Freezing Control" Affects Domestic Trade

**CF** Opinions expressed by some credit executives at a recent group meeting held in New York City, indicated that freezing control of foreign funds was no concern of theirs. Evidently from the wording of the first section of the order as well as from recent newspaper accounts these credit executives thought that "freezing control" applied only to bankers. Some others were of the opinion that it also applied to Exporters and Importers but not to firms only doing a domestic business.

At present, there seems to be a good deal of confusion and misunderstanding regarding the application of the terms of the order even to experienced bankers and exporters. However, prevailing opinion would indicate that the order applies to any person in the United States doing business with any European Countries or any of their political subdivisions and with any National of any such countries regardless of their location. Let us, therefore, consider some of the important features of the order and its particular adaptation to domestic business transactions.

To enable the United States Government to assist invaded European nations or nationals thereof in protecting their assets in this country and to eliminate duress by aggressors in obtaining such assets and to relieve our own nationals from responsibilities of paying conflicting claims against such assets, President Roosevelt issued an Executive Order under date of April 10, 1940. This order is known as "Executive Order No. 8389" commonly called, "Freezing Control," which originally blocked all assets of Norway and Denmark located in the United States. As other European countries were invaded their properties here were also blocked up to the invasion of Greece in April, 1941. At that date therefore, fourteen out of thirty European countries

By J. S. BROWN  
*Credit Dept., American Cyanamid Co.*

and nationals thereof were subject to "freezing control." On June 14, 1941, this Executive Order was further amended to include the assets of all additional European countries and their nationals, with the exception of course of Great Britain and Turkey.

## Domestic Aspect of "Control"

**T**O give credit men a general idea of the scope of this order an excerpt of Section 1, Part "A" and "E" are quoted verbatim below; the full text of the order may be obtained direct from the Treasury Department in Washington or through any Federal Reserve Bank.

All of the following transactions are prohibited, except as specifically authorized by the Secretary of the Treasury, by means of regulations, rulings, instructions, licenses, or otherwise, if (i) such transactions are by, or on behalf of, or pursuant to the direction of any foreign country (all European countries) designated in this Order, or any national thereof, or (ii) such transactions involve property in which any foreign country designated in this Order, or any national thereof, has at any time on or since the effective date of this Order had any interest of any nature whatsoever, direct or indirect:

A. All transfer of credit between any banking institutions within the United States; and all transfers of credit between any banking institutions within the United States and any banking institutions outside the United States (including any principal, agent, home office, branch, or correspondent outside the United States, of a banking institution within the United States);

E. All transfers, withdrawals or

exportations of, or dealings in, any evidences of indebtedness or evidences of ownership of property by any person within the United States.

Section 1, "E," evidently was intended to include any person dealing with a European National regardless of whether or not the person in the United States is an individual, Corporation, partnership or a Banking institution. Furthermore, the term "banking institution" is rather broad in that it includes in addition to a person engaged primarily in the business of banking, also any person holding credits for others, etc. The term "National" is quite extensive as it includes "any person who has been domiciled in, or a subject, citizen or resident of a foreign country at any time on or since the effective date of this Order. Any partnership, association, corporation or other organization organized under the laws of, or which on or since the effective date of this Order had or has had its principal place of business in such foreign country, or which on or since such effective date was or has been controlled by, or a substantial part of the stock, shares, bonds, debentures, notes, drafts, or other securities or obligations of which, was or has been owned or controlled by, directly or indirectly, such foreign country and/or one or more nationals thereof as herein defined." The definition of "property" in the order is extremely broad and should be studied thoroughly.

## Credit Men Should Check

**I**N view of the terms of the order, as described above, its importance to the credit executive and his staff is immediately recognized. Credit files contain vital information which places considerable responsibility on the credit executive in any organization in assisting his firm to comply with the regulations. Furthermore, the

majority of the credit reports issued usually indicate therein the identity of the controlling interests or the nationality of the owners.

After due consideration of the above definitions it would appear that a number of firms located in the United States are affected by this order. Certain exemptions have been given by the Treasury Department in the form of general licenses, special license and rulings. General licenses have been given to certain nationals who have been located here since the effective date of the Order and especially since June 17, 1940. On the other hand, a domestic corporation which is substantially controlled by European Nationals through stock ownership directly or indirectly or otherwise would be subject to the order in most instances. This means that such a firm evidently must obtain a General, Special or Specific License to carry on ordinary business transactions.

Upon learning that certain customers are subject to License under this order, Credit Executives, before checking orders or entering into transactions with such firms should investigate the type of license under which the customer is operating. Persons or firms operating as a "Generally Licensed National" are regarded, "as a person within the United States who is not a national of any blocked country." However, where persons or nationals are operating under Special or Specific License it would be well for credit men to determine the conditions of the license before approving orders for such concerns, or even entering into negotiations with them because in addition to the terms of the License an expiration date is also indicated. Where a firm is subject to the order a word of caution is advisable and you should assure yourself, in advance, that the transaction is properly licensed and that the period for which the license is issued will be sufficient to cover the length of time involved in your terms of sale to include payment at due date. Needless to say that if a license expires before a check clears and such license is not extended the check will, no doubt, be returned by the bank unpaid.

Examining this order a little further it would appear that checks cannot be issued by your own organization for commissions, refunds, accounts payable, patent licenses, etc., to such nationals or firms subject to

### "Black List" of Latin-American concerns issued

On Thursday, July 17th, the President of the United States by proclamation promulgated a "Proclaimed List of Certain Blocked Nationals." This list contains the names of individuals and companies in the twenty American Republics who are deemed by our Government to be acting for the benefit of Germany or Italy or national of those countries, and persons to whom the exportation, directly or indirectly, of various articles or materials is deemed to be detrimental to the interest of national defense.

Copies can be obtained from the Government Printing Office, Washington, D. C.

The list will have two principal functions. In the first place, no article covered by the Export Control Act of July 2, 1940, may be exported to persons named in the list except under special circumstances. Secondly, persons on the list will be treated as though they were nationals of Germany or Italy within the meaning of Executive Order No. 8389, as amended, under which, on June 14, 1941, the freezing control was extended to all of the countries of the continent of Europe and nationals thereof.

At the time of the issuance of the proclamation, it was also announced that in attaining the objectives of Executive Order No. 8389, as amended, all efforts are being made to cause

the least possible interference with legitimate inter-American trade. With that end in view the Treasury Department has issued a general license (Federal Reserve Bank of New York Circular #2244, July 17, 1941, General License #53) with respect to inter-American trade transactions and the financial transactions incidental thereto involving persons in the other American republics who may be nationals of a European country designated in the order. This general license will permit such classes of transactions without the necessity of applying for specific licenses.

The general license, however, will not apply to persons so long as their names appear on the proclaimed list. In addition, exporters and importers in the United States may from time to time be advised by their banks or otherwise that instructions have been issued by the Secretary of the Treasury requiring specific license applications for trade transactions involving certain persons in the other American republics who are not named on the proclaimed list.

Furthermore, financial transactions which are not incidental to licensed trade transactions are not covered by the general license. With respect to such purely financial transactions, appropriate specific licenses will have to be obtained from the Treasury Dept.

the order except under some form of license. Here again the importance of credit information cannot be minimized. Credit files should be checked before making payments and especially in cases where you have reasonable cause to suspect that such payee is subject to the order. Due diligence on the part of the credit man is all that is necessary and it is felt that if you have no real reason to be suspicious as to the nationality of the payee that it would be unnecessary to apply for a license to make a payment.

It is believed that if the payee is licensed to carry on ordinary business transactions then the payment could be made direct to such payee as it is not necessary for all parties to a transaction to obtain a license. The Treasury Department is desirous of simplifying the handling of licenses and one license should be broad enough to cover all parties to and all phases of any particular transaction. On the other hand, payment could be made by you under "General License No. 1" if such payment was to be made to the payee's bank. The reason for the latter alternative is that the payee's

bank has blocked such account under the regulations and the Treasury Department has control of any disbursements made therefrom in the form of a license.

Certainly some steps should be taken by the credit executive, upon learning that a particular firm is affected by Freezing Control, to indicate this information in his files. If he has supervision over accounts receivable, it might also be well to make some notation to this effect on the customer's ledger card. Information should also be passed on to the head of the Accounts Payable Department so that a notation may also be made in the voucher file. This would facilitate the acceptance of orders and the payment of claims, refunds, commissions, etc., as well as accounts payable.

The Order is naturally of more concern to export credit men who in the course of ordinary transactions are dealing directly with a considerable number of firms affected by the regulations than domestic credit men. If your firm has an Export Credit Department they (Contd. on p. 38)

# Management Plasticity Important

## How Will Changed Conditions Be Met

By J. E. BULLARD

Special Writer

**N**O one can foretell with any high degree of accuracy exactly what changes will take place during the next ten years in the conditions under which business will have to be conducted. Anybody can predict with certainty that changes of some sort are sure to take place and that the success of any business enterprise will be determined in no small measure by the degree to which the management meets changing conditions without undue friction. In other words, the plasticity of management promises to play an important part in determining the risk connected with extending credit to any given concern. The management which is not plastic, which is frozen into its present mold and cannot be remolded, is likely to face hard times. That which can be molded into new forms which fit into the changed conditions is more likely to succeed.

There is a considerable group in this country which believes our economic system should be changed. Some would have the government own and operate all business. When it is suggested to individuals in this group that the idea has not proved especially effective in Russia, they insist it will be worked out better here. There are some who would have the government exercise more absolute control over business. There would still be private enterprise but the freedom of that enterprise would be taken away. Those who advocate this move are likely to resent the suggestion that they are in favor of the German system. There is another group which is convinced the system which has raised the standard of living in the United States to a higher level than that in any other part of the world and much higher than the standard of living the average person has ever before enjoyed is the one which should be continued.

**T**HERE are many factors, however,

which are likely to bring about rather drastic changes and require a considerable degree of adaptation or plasticity on the part of management if private enterprise is to continue to be reasonably free. There may be said to be a tide in public opinion which taken at its ebb by management leads on to fortune. An example is the case of the clamour in one city some forty years ago for a public market. The general idea seems to have been that the food retailers were all charging prices that were too high. The city was to provide a market place, stalls were to be rented at low rentals and in this manner food prices were to be reduced considerably.

Three young men with limited capital sensed the possibilities in this state of public opinion. They started a cash store designed to give the people in that territory the sort of service they seemed to demand. They succeeded to a degree where sales volume grew by leaps and bounds. Not many years passed before branch stores had to be opened. These branches were cash and carry. Largely due to the service this one company rendered, the agitation for a public market died down. There has been no such agitation since. By plasticity of management is meant this ability to meet a demand on the part of the public so well that the desire for government interference becomes non-existent or to meet other changes in public opinion as effectively.

In the past there have been many examples of failures and successes which have resulted from the failure to or the ability to meet changing conditions. In one city there was an iron foundry making cast iron toys. The products of that company have been changed to meet changing conditions. As conditions called for

pressed steel in place of cast iron, the business changed from iron to steel. As it became more and more apparent that some other product than toys would also have to be made to maintain prosperity, the building of a limited line of machine tools in which pressed steel played an important part was undertaken. Today, that concern is larger and more prosperous than ever before. There was a plasticity in management which enabled the company to meet changing conditions in an effective and profitable manner.

### Examples of Failure

**I**N that same city, at the time cast iron toys were in demand, there was a prosperous furniture factory with a management which lacked plasticity. No changes were made to meet changing conditions. As the years passed profits began to decrease but nothing effective was done to meet the new conditions. In the end the business failed with serious losses to all those who had not given sufficiently serious consideration to the lack of adaptability of the management and consequently had continued to extend credit more liberally than actual conditions warranted.

In another community there were two blacksmiths. One had no use for automobiles, would make no repairs on them, did not want car owners to bother him. He would not change his ways, would not admit that conditions were changing. The other was always glad to help out any motorist in need of repairs and gradually built up more and more automobile business. Today, he is doing a larger and more profitable business than ever before while the other man is out of business entirely.

There is a rather general impression that after this war there are going to be many changes in the manner in which business is conducted. Some managements are going to fit

into these changes quickly and efficiently. Other managements are not going to be able to do so. The degree to which changes are made in our present economic system is likely to depend upon the degree to which management can meet the new conditions which arise. It is likely that changes will not be as great here as they may be in most other countries, especially those which have been more actively participating in the war than we have. This will be true because of the greater plasticity of the average management in this country, the greater ease with which it can meet new conditions, the greater effectiveness with which it can adapt itself to new demands and ideas.

#### Labor's Place in Picture

LABOR has always wanted a greater share of what it has produced than it has ever been able to get. To the degree that management adopts systems and methods which it can prove to labor gives it its full share, there is less demand that government step in and assure labor it obtains its full share. That management, however, has to be able to sell the idea to labor, to convince it and make it satisfied.

For some twenty years, the communists have had their propaganda at work in this country. They have worked through labor and many other kinds of organizations. The result has been that more and more people have been sold the idea that the system which has been in operation in these United States ever since the beginning of the republic is wrong and should be changed. Most of these people are not aware that they have been the victims of foreign propaganda. This has created a new problem for management. The degree to which individual companies are able to meet the situation determines their future. Certain changes in policies and methods may have to be made. Any firm which makes them and puts them into successful operation has improved its basic credit standing to that degree.

There has also been no lack of propaganda along the line that there should be more government control and regulation. Whether or not this emanates from Italy or Germany, the idea is one which those nations have put into practice. To combat this may require that industries and business trades organize for more thor-

ough housecleaning within themselves. If they can demonstrate there is no need for government control and regulation because things could not be better under such a plan than they now are, and might be worse, they have met a changing condition of public opinion in such a manner as to change that public opinion. Therefore, when any industry so organizes and actually raises the standards of business ethics among those engaged in the industry, it has taken a long step in making that industry one of safe credit risks. The more policing it does toward the end that all live up to the ethical standards adopted, the stronger its position is likely to be.

#### Public Opinion Rules

TO a much greater degree than is realized, the part the government will play in connection with business will be determined by the plasticity of management, its ability to adapt itself to new conditions, to changes in public opinion in such a manner as to keep the public satisfied, if not actually pleased, and thus counteract moves to have the government take a more and more active part in the conduct of business. Such adaptability not only meets the new situations effectively but has a way of increasing the volume of business being done.

Those three young men, previously mentioned, who strove to meet the demand for a market which had all the advantages of the public market the people had in mind, experienced a more rapid growth in sales volume than would have been the case had they not met the situation as effectively. They accomplished two things. They kept the city out of the retail business and they made fortunes for themselves. At about the same time in that same city a couple of brothers started a little store. They played skillfully to public opinion of the time. They continued to fit their policies as closely as possible to public opinion. That little store they started has grown and grown until it is now the largest department store in the city.

Both of these firms started new at a time when it was possible to make the most of a situation which the older concerns had not been able to capitalize. However, had the management of older concerns been such as to adapt itself to the situation which arose, it is not likely that these new concerns would have been able to

obtain as strong a footing as they did. Instead, the tendency on the part of the older stores was to place as many obstacles as possible in the way of the new and different stores. These obstacles rather than proving handicaps to those beginners, actually served to help them grow. As a matter of fact, had the management of the oldest and largest retail concerns in that city been as sensitive to public opinion and as adaptable in fitting their policies to it, the situation which made it possible for these two concerns to make the successes they did never would have existed.

#### Those Who Will Gain

THOSE business firms now able to adapt themselves to the present situation to such a degree as to gain the wholehearted support of the public which comes in contact with them are firms which are going to make private business of the future better than it would be had it not been for them. Those business firms unable to adapt themselves to new situations and for that reason may be arousing public antagonism make it difficult for themselves and for all other private enterprise.

It appears to be a mistake to take it for granted that certain policies and methods are right and others wrong. What counts is the public reaction to the manner in which they are applied. There are some employers who have experienced much labor trouble during the past ten years. There are others who, it would seem to those who know them, ought to be having a lot of labor trouble but who certainly have not had to close down their plants on account of strikes. On the other hand, there are employers who never used to have labor troubles who have experienced them in recent years. It does not seem to matter so much what the past policies and methods have been. What does count is how effective present policies and methods are in practice. The results are what count and not the theories, the actual policies or the methods. Some managements seem adaptable enough to make most anything work in practice. Others do not succeed so well in making anything work. The difference seems to be in the plasticity of the management, its ability to fit new conditions perfectly.

The plasticity of a given management may be far greater than appears to be the case. There is one em-

ployer whose employees have a way of saying more bad than good things about him. One would expect he would be among the first to experience serious labor troubles when such troubles are rife. Yet, he has been surprisingly free from such troubles. It would also seem that his customers are satisfied with what he sells them. This has proved an enigma to many who know the firm well. There must be a plasticity of management which is not apparent to the naked eye. There is something about that employer which enables him to avoid the troubles which are predicted for him.

### Loss of Plasticity?

**T**HERE are other employers who have met all sorts of situations in the past with a high degree of success who do not seem to meet present situations as well. It may be that those managements have lost their former plasticity, have become more and more frozen into a definite form. Therefore, dangers lie in taking too much for granted. Only the results can be counted upon with any great degree of confidence.

As new conditions develop, as new situations arise, some firms are going to be able to meet them effectively. Some of these will be new concerns.

Some will be old established ones. Only those able to meet new conditions and situations can be expected to continue to be first class credit risks. Consequently, it is going to be worth while to watch closely what is happening to all concerns to which credit is extended.

The present financial standing, the past record of any business concern is not so important as what is happening right now. The organization set-up of some corporations may not be such as to permit of the flexibility required to meet new situations with any degree of effectiveness. Those of others may have the flexibility. The attitude of mind of some executives may be such that they cannot meet new conditions until that attitude is changed. There may be many other reasons why a given concern can adapt itself to anything that happens while another cannot do so.

During the coming years there are bound to be many changes to be met. For one thing taxes and public debt are going to be higher than they ever have been before. They are going to be higher based on population, based on national income and based on total national wealth. Government control and regulation is likely to be greater than ever before and the degree to which it goes probably will be deter-

mined by the adaptability of business management. Public ownership and operation of business has been extended to a greater degree than in the past, especially as far as the national government is concerned.

Private enterprise has to demonstrate it is more efficient than government business, that it is not necessary that there be undue government control and supervision. Some way must be found for dealing with the labor situation in such a manner that there is a greater degree of satisfaction on the part of everybody concerned including the general public. These are just some of the problems which require more attention than ever before, problems which create new and in some instances serious situations. There is also the problem of planning ahead for peace time business when the war is over and the war prosperity comes to a sudden end.

The solving of all these problems calls for a great deal of adaptability on the part of management. The management of some concerns is bound to have this adaptability. That of others will lack it. Only those managements who do have it can hope to continue to show a profit or even to keep the business solvent. Hence the need of watching the results of these managements.

## It's a Credit to Be a Credit Man

**I**T seems to me that the logical approach to this subject is to ask a series of questions:

What does the public expect?

What do our customers expect?

What does our management expect?—from the Credit Department and the Credit Man. A one word answer is **PLENTY**. And "plenty" in capital letters. However, we are glad that *plenty* is expected of us because there is pride in knowing that we have a job from which a lot is expected and one that is looked upon as worthwhile. If *plenty* is expected of us, then how are we to proceed to get the best results? We will all agree that the secret of success is in a large part due to the practice of the Golden Rule. With *plenty* expected of us and the Golden Rule to follow we begin to realize that the job of the Credit Man calls for a combination of high qualifications. No attempt will be made to enumer-

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ate all of the qualifications that go to make up a successful Credit Man but instead your serious thought is going to be directed to four important qualifications that apply to a truly great Credit Man and which describe him as a Scientist, Psychologist, Economist, and a Statesman.

As first proof that the credit fraternity today is founded upon scientific foundations and principles, we have but to recognize the tremendous growth of the National Association of Credit Men during its life of approximately forty-five years. Our National with its numerous departments is today the outgrowth of a step by step development based upon sound principles applied to business needs and services. Our Associations,

both national and local, are today as in years past composed of leaders in the business field, many of whom have achieved national recognition. Reputations of this kind can only be the result of long hard years of scientific application to the canons of credit. Thus we find business now understands that the practice of credit is a science. Credit work in its true bigness is just as surely a profession as medicine, law or any of the other professional activities. Credit men and credit executives are important people because they are doctors in the field of financing business and industry. Therefore, let us wholeheartedly look upon our work as scientific and professional.

### How Psychology Applies

**I**N considering the second qualification, that of being a psychologist, let us first come to the full realization that to enjoy a high measure of suc-

cess in our work we must secure the favorable attention of people. Some credit departments have had the unfavorable attention of both customers and prospective customers. Seemingly, such credit men do not sufficiently know their customers or prospective customers, and they in turn have therefore felt no great urge to know these credit men. Consequently, we must face the fact that to gain the favorable attention of people requires that we first open their minds; secure their interest, and then stimulate their desires. Stimulate their interest in our service and products, and then create the desire on their part to acquire our service or products. With their interest and desires aroused the making of friends becomes an easy matter to a wide-awake credit man, and this combination of elements normally results in more business to the satisfaction of all concerned. Our job is not to coerce but to woo people.

Because of the great and constant use of psychology in the daily work of the credit man, which after all is mainly interest in and understanding of human beings and human relations, I cannot think of anything other than a credit man in terms of a super-salesman. Yes, a super-salesman, for the reason that he employs psychology to the nth degree. (Super-salesmanship, as we see it, differs from the high pressure artist who, for example, sells milking machines and approaches a farmer who has only one cow and against the poor farmer's will not only sells him one milking machine, but two and then takes the cow in as down payment.)

#### More Than a Service Feature

SOMETIMES we find management regarding its Credit Department as a service feature only, as just one of those business necessities, and they fail to see the department has any relation to the growth of the business. If credit managers in some businesses were to walk into a meeting of the sales, advertising or other department heads, many of these men would immediately perk up and mentally ask the question, "What are you doing here?" This attitude, of course, is dead wrong and ruinous to any business. Fortunately, credit managers are now being viewed with a realization of their ability to play an active part in the *development of new business*.

Some will say that only salesmen are to be responsible for sales, but a really competent Credit Manager who understands the possibilities of his position and who is forward looking can build more sound and worthwhile sales volume through his constructive efforts than that produced by half a dozen or more salesmen operating under a lax credit policy.

Perhaps some of us can recall occasions when the sales manager being somewhat disturbed, would say that you as a poor credit manager were driving more business away than could be brought in by ten of his best salesman. This declaration from a sales department is indeed interesting. Realizing that we are sound and constructive credit men and not destructive credit men we can immediately evaluate our worth and productive possibilities. (It might be interesting some time to tackle your boss on the theory that you should be receiving a salary equivalent to that of ten good salesmen.)

#### Important Profit Talk

WHEN we think about making our jobs economically worthwhile, that we practice economies and that we produce sales, we then come to the important point of—profit talk. It seems a shame that there has been so much apology for the profit motive during the last ten years. Apparently some business men seem to forget that their customers are also in business to make a profit, therefore why all this apology about the profit system? Some people would like to have you think that it is almost anti-social to even mention the ugly word "profit." Who are these people who are attacking profit? In the utility field, for instance, we find that many of our governmental competitors make as their very first move, the offer to insure private profit by borrowing private money. This talk about eliminating the profit motive is plain baloney—let's all continue to be "profit-minded," for goodness knows the margin of profit today is plenty narrow as it is.

While we are on the subject of economics as it applies to our profits, let us heed this "admonition" *Don't Grow Soft*. All of us put forth tremendous efforts during the depression years and during that time we were not proud of our past due per-

centages, loss ratios, volume of credit denials, and other yardsticks of the business. But now with the national defense program in motion, money is freer, and our accounts and records are all in better shape, I urge you to be ever vigorous and vigilant, maintain your present high standards, sustain your financial achievements, support the prestige of the credit profession, continue to carry the torch, and *Don't Grow Soft*.

#### Statesmanship In Business

THERE is a difference between a politician and a statesman. There is a difference between a poor credit man and a good credit man. A poor credit man, like a politician, unfortunately is all too often led by bad influences, but a *good* credit man, like a *statesman*, is a leader who formulates his own ideas and decisions; who by the force of his character, his integrity and the power of his ideals becomes a leader in his business and in his community. As an admirable example of business statesmanship we have our own Mr. Henry H. Heilmann whose brilliant leadership we respect profoundly and who inspires us to carry on with his challenging words, "*Guarding the Nation's Profits*." Oh yes, it is easy to go with the wind, it's easy to go with the crowd, but it is difficult to stand foursquare against pressure, to recognize an ideal and to stand for that principle at all costs. To you as career men in the credit world, I say, as we plan for tomorrow, as we build for the future, let us make sure that we are building into our lives those qualities of higher business ethics and characteristics of statesmanship that broaden the fields of better understanding, better relations, and better standards of American life.

It's a big thing being a credit man these days—it's a big thing being a business man today. Let's continue to look forward with pride upon our jobs and our profession as Scientific, Psychological, Economic and Statesman-like. It is therefore with supreme conviction that I say to you again—"It's a Credit to Be a Credit Man."


#### Nationality

Employer: "Surely, Miss Jenks, you know the King's English?"

Typist: "Of course he is. Whoever said he wasn't?"

# Investor and the Balance Sheet

## Accountants Tell What to Look For

 Puzzling points in corporation financial statements, often regarded as mysteries by the average investor, are cleared up in "Financial Statements—What They Mean," a pamphlet just published by the American Institute of Accountants for wide public distribution.

Leading certified public accountants and a number of corporation executives acted as advisors to a special committee of the Institute which prepared the pamphlet. It stresses the importance of financial statements as required reading for the man or woman who owns shares.

The new volume is a handy guide for the shareholder in his search for information in balance-sheets and income statements. It explains, among other points, how "assets," "surplus," "liabilities" and "reserves," as shown in balance-sheets, have acquired technical meanings slightly different from those of ordinary everyday conversation.

The average citizen takes time to investigate several models before he buys an automobile, the authors of the new pamphlet point out, but he may invest a thousand dollars in the capital stock of a corporation on a hunch. The authors urge every investor to read the financial statements of companies in which he is interested.

Fourteen points about balance-sheets and other financial statements are presented in the pamphlet, the contents of which also include a convincing answer to the oft-repeated query: "Why does the balance-sheet balance?" The volume also shows that, despite the fact they are expressed in dollars and cents, financial statements do not profess to be mathematically exact reports of position or earnings, since judgment and opinion must enter into the determination of those matters.

The pamphlet points out:

"Profit during any given period and

financial position at any given time depend in large part upon judgment. The presentation of various items in financial statements is based upon estimates of such factors as the probability that money due the company will be collected, the probability that the company can obtain a fair price for the goods or services it intends to sell, the probable useful life of its buildings and machinery.

"Financial statements, therefore, reflect probabilities as well as facts. Human judgment and opinion, guided by accepted rules and principles of accounting, must determine how these probabilities shall be expressed. The company's financial officers must exercise judgment in preparing financial statements and related explanations. The independent certified public accountant who examines these financial statements must express his professional opinion concerning their adequacy."

### The Value of a Share

ONE common error made by the general investing public in interpreting financial statements in terms of the value of shares of stock is pointed out and corrected in the pamphlet. It states that the value of a share depends ordinarily upon the income which it may yield in dividends, adding:

"The fact that a company owns a plant and other property which cost a million dollars, and has a hundred thousand shares of stock outstanding, does not mean that each share is worth ten dollars. If the company cannot operate profitably, it probably could not sell its plant and property for what it cost. If it does operate profitably, the company is unlikely to sell out its productive equipment. In neither case, can the stockholder expect to recover his proportionate share of the cost of plant and property. The value of a share of stock, there-

fore, depends primarily upon expected earnings, not upon what the company owns."

The shareholder is advised in the pamphlet not to put too much stress on a single year's earnings in his efforts to get a picture of the prospects or position of a company in which his money is invested.

"A series of income statements covering a number of recent years," the authors of the booklet point out, "generally provides more useful information than a single statement. Marked fluctuations in earnings from year to year, and any tendency of profits to increase or decrease over a period of years, deserve special attention."

### Other Factors

THE investor also is told in the pamphlet that many important facts which affect a company's welfare cannot be found in its financial statements. These facts include the ability of the managing executives; general business prospects, and the outlook of the industry as a whole; taxes and tariffs, and Federal and state legislation.

"For such information," it is said, "the investor should consult annual reports of the company's officers, government bulletins, the financial press, and similar sources."

Subjects discussed in the pamphlet under appropriate headings include the independent auditor's report which accompanies most financial statements, and what that report, often mistakenly called a "certificate," tells the investor; judgment and opinion, the income statement, the balance-sheet current, fixed and intangible assets; reserves, capital stock, surplus and footnotes. The pamphlet is primarily concerned with the financial statements of manufacturing and merchandising corporations.

The following are interesting ex-

cerpts from the pamphlet, presented through the courtesy of Robert W. Mears of the staff of the American Institute of Accountants:

### Judgment and Opinion

**"M**ANY think that income statements, because they are expressed in dollars, profess to be exact calculations of profit or loss. This is not true. Nor do balance-sheets, although they are also expressed in dollars, profess to show with mathematical exactitude the financial position of a company.

"Profit' during any given period and 'financial position' at any given time depend in large part upon judgment. The presentation of various items in financial statements is based upon estimates of such factors as the probability that money due the company will be collected, the probability that the company can obtain a fair price for the goods or services which it intends to sell, the probable useful life of its buildings and machinery.

"Financial statements, therefore, reflect probabilities as well as facts. Human judgment and opinion, guided by accepted rules and principles of accounting, must determine how these probabilities shall be expressed. The company's financial officers must exercise judgment in preparing financial statements and related explanations. The independent certified public accountant who examines these financial statements must express his professional opinion concerning their adequacy.

"Every investor wants to know: 'How much money will I receive in dividends?' No one, of course, can foresee the future, but the company's financial statements provide some of the information necessary to judge the possibilities intelligently.

"Dividends come from earnings—either current or accumulated—although in any given year there is no necessary relation between earnings and dividends.

"'X Company Earns \$1.17 Per Share.' This is a typical newspaper headline. It attempts to summarize for the reader information about earnings which is presented in the company's income statement. But neither this figure, nor any other single figure, can give the investor a reliable indication of the success of the company's operations and, therefore, the probability of future divi-

dends. Some of the questions which must be answered, before he can interpret such a headline intelligently, are the following:

"Were earnings per share greater or less than during the preceding year? Have there been any large abnormal revenues or expenses? Has adequate allowance been made for the wearing out of the company's buildings and machinery? Have there been any significant changes in the company's accounting methods which might alter this earnings figure as compared with that for the preceding year? Have the earnings been computed in accordance with accepted accounting principles? The answers to such questions can be found in the company's financial statements, with related footnotes, and the report of the independent certified public accountant who 'audits,' or reviews, the statements.

### "How Much Will My Shares Be Worth?"

**"A**NOTHER question in the mind of every investor is 'How much will my shares of stock be worth?' Here, again, future events will largely determine the answer, but a study of the company's financial statements is necessary as a basis for an intelligent opinion.

"The value of a share of stock depends ordinarily upon the income which it may yield in dividends. The fact that a company owns a plant and other property which cost a million dollars, and has a hundred thousand shares of stock outstanding, does not mean that each share is worth ten dollars. If the company cannot operate profitably, it probably could not sell its plant and property for what it cost. If it does operate profitably, the company is unlikely to sell out its productive equipment. In neither case, can the stockholder expect to recover his proportionate share of the cost of plant and property. The value of a share of stock, therefore, depends primarily upon expected earnings, not upon what the company owns.

"At any given time, of course, the price which an investor can obtain for securities is the amount which someone else is willing to pay for them. Shares of stock may sell for more or less than they appear to be worth on the basis of earnings and dividends, depending partly upon current interest rates and variations

in the supply of and demand for attractive investments. Their prices are affected by the operations of speculators who buy and sell securities, hoping for quick profits, as well as by the carefully estimated valuation put upon them by informed investors. A company's financial statements give no indication of the present 'market value' of its stock, but they do provide the stockholder with information which helps him to judge the real worth of his shares.

### The Income Statement

**"E**VERY business, from the one-man peanut stand to the huge steel company with hundreds of thousands of stockholders and tens of thousands of employees, performs certain basic operations. It buys goods and sells goods, as the peanut man does. It makes goods and sells goods, as the steel company does, or it provides a service, as a railroad or a barber does. Income statements indicate how much money has been made or lost from these basic operations and from incidental activities.

"Most income statements show income and expenses resulting from each of two distinct sources: the basic operations which the business is organized to perform, and incidental activities. The investor will naturally wish to identify these two groups of income and expenses, even though they may not be specifically labeled. It is of primary interest to him to know whether the basic operations of the company are profitable.

"Income and expenses resulting from basic operations include amounts received from the sale of goods and services, costs incurred in buying or manufacturing goods which the company has sold, selling expenses, administrative expenses and wages, as well as taxes, which have become an increasingly important element in the cost of doing business. Income and expenses resulting from incidental activities include such items as interest and dividends received on securities owned by the company, interest paid on its bonds, and gain or loss resulting from the sale of investments or property.

"In addition, there may be 'non-recurring' income, such as gains resulting from the collection of a favorable legal judgment, and non-recurring expenses, such as losses due to hurricane, flood, fire or sabotage.

"A series of income statements, covering a number of recent years, generally provides more useful information than a single statement. Marked fluctuations in earnings from year to year, and any tendency of profits to increase or decrease over a period of years, deserve special attention.

### The Balance-Sheet

"THE balance-sheet is often misinterpreted. Some misunderstanding may be due to the use of such terms as 'assets,' 'liabilities,' 'surplus,' and 'reserves' which, in accounting, have acquired technical meanings somewhat different from the ordinary meanings of these words as they are defined in standard dictionaries.

"It is commonly said that items listed under 'assets' in the balance-sheet indicate what the company owns and how much is due it, while items under 'liabilities' indicate how much money the company owes. The item of 'surplus' is said to indicate what is left over. This is over-simplification. It is correct to say that the balance-sheet shows the 'position' of a company, but even this term needs explanation to be thoroughly understood.

"One important fact which must be remembered is that the balance-sheet is basically historical—that is, it records the results of events which have happened. For this reason, *cost* is the primary basis of stating what the company owns. The balance-sheet does not attempt to show what the business is 'worth' in the sense of an amount which might be realized if it were to be liquidated immediately—that is, if all its property were to be sold and the proceeds used to pay debts. Amounts shown in the balance-sheet are based on the assumption that the company will continue in business indefinitely.

"The balance-sheet does list assets and liabilities, as those words are commonly understood, but usually it also includes under the heading of 'assets,' benefits, such as 'goodwill,' which ordinarily cannot be valued precisely and are therefore carried at some conventional figure, in order to show their existence. Among the other balance-sheet items are payments made in advance and costs incurred for future benefits, which are therefore to be charged against earnings of future years. All these types

of items are described briefly in the following pages.

### Current Assets

"CURRENT assets are in the form of cash on hand or in banks, and goods and claims which can be converted into cash within one year. They include marketable securities owned by the company, accounts receivable, notes receivable and 'inventory' or stocks of materials and merchandise on hand.

"Cost, as has been said, is the primary basis upon which assets are stated. Probable profits are not reported until actually realized and, consequently, if the market price of a current asset rises above cost, the cost figure is retained in the balance-sheet. If, however, a drop in market price below cost of materials or merchandise on hand, or marketable securities, indicates that cost will probably not be recovered in full through sales, it is customary to recognize as a current asset only that portion of cost that will probably be recovered, and to report this lower figure in the balance-sheet.

"From accounts receivable and notes receivable, which indicate money due the company, there is usually deducted an allowance for estimated losses because of bad debts. This deduction reduces the amount at which receivables are listed in the balance-sheet to the estimated amount which the company expects to collect.

### Fixed Assets

"FIXED assets such as land, buildings, and machinery, are usually listed in the balance-sheet at cost, an amount which may differ materially from the price which they would now command if sold. As it is assumed that the company will continue in business, there is no present intention to sell them, and therefore the amount for which they might be sold in any given year is relatively unimportant for the investor.

"Over the life of an enterprise, buildings and machinery decline in usefulness owing to wearing out, or 'depreciation,' and the development of improved materials and methods, or 'obsolescence.' In the balance-sheet, an allowance for the accumulated loss in usefulness of fixed assets, owing to wearing out or obsolescence, is deducted from the amount at which those assets are carried, although

sometimes only the amount remaining after deduction of depreciation is shown. Correspondingly, each year the amount of depreciation estimated to be applicable to the operations of that year is treated as a cost and deducted from earnings. This amount is either shown separately in the income statement or is included in the item 'cost of goods sold.'

"Fixed assets which wear out, such as buildings and machinery, are sometimes spoken of as 'deferred costs'—that is, costs incurred for the future production of goods to be sold. Such costs quite properly should be charged gradually against earnings over the period of years during which the goods are produced and sold. This helps to explain depreciation as a cost of production.

"Under special circumstances, fixed assets are sometimes listed in balance-sheets at 'appraised values'—amounts determined by appraisers, or experts in valuation. Such appraisals may result in reducing or increasing the amounts at which those fixed assets are listed. Good accounting procedure requires that if fixed assets are listed on any basis other than cost the basis be described in the balance-sheet.

"Intangible assets, such as goodwill, patents, trademarks, copyrights and franchises, the value of which can seldom be determined accurately, may be listed in the balance-sheet, more or less arbitrarily, at one dollar or at substantial amounts, running into many thousands of dollars, based upon the cost of acquiring these intangibles or some other historical basis.

### Deferred Charges

"A BUSINESS often pays in advance for some of the services which it requires, for example, in the form of rent, insurance premiums or advertising expenditures. To the extent that such prepayments cover services to be rendered after the date of the balance-sheet, they are listed under the heading of assets as 'prepaid expenses.'

"Deferred charges are costs which the business has incurred during the current or a previous period but which are properly chargeable against earnings of future years. A common example is 'bond discount and expense.' When a company issues bonds, it sometimes receives less than

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the face amount of the bonds which it will ultimately have to pay. The difference between what it receives and the face amount is composed of the discount often deducted from face value in order to make the bonds saleable, compensation to investment bankers who distribute them, and legal, accounting and printing expenses.

"These items which make up bond discount and expense are lumped together and charged against earnings over the period of years during which the bonds remain outstanding—that is, until the date when their face amount must be paid by the company. Any balance of bond discount and expense which has not yet been charged against earnings is listed in the balance-sheet under the heading of 'assets,' although obviously this deferred charge is not an asset in the ordinary sense of that word.

"Liabilities of the company, such as accounts payable and all other debts due within one year, are reported in the balance-sheet as 'current liabilities.' Bonds, long-term notes, and other long-term debts are listed separately. These liabilities are listed at the face amounts of the debts. Liabilities which may arise as a result of pending lawsuits, guarantees, or other unpredictable events, are considered 'contingent liabilities' and are rarely added into the total of the balance-sheet, but are usually described in footnotes.

#### Capital Stock

"THE owners of a corporation are its stockholders. The account which shows their investment in the corporation is 'capital stock.' The stockholders also own, subject to restrictions, the earnings made by the company but not yet distributed. The investment of the owners and the undistributed earnings are usually shown separately in the balance-sheet. Capital stock which has previously been issued to stockholders but since reacquired from them by the company, thereby reducing the total amount of capital stock in the hands of stockholders, is listed in the balance-sheet as 'treasury stock.'

"Surplus, like capital stock, is an 'ownership' item. Obviously what the stockholders 'own' (capital stock plus surplus) is represented by the amount remaining after liabilities are deducted from assets. In other words, surplus is the amount by which the sum of

#### FOURTEEN POINTS (A Summary)

This pamphlet attempts briefly to acquaint the investor with a subject which is complex but of vital importance to him. An effort is made in these concluding pages to summarize the principal points here presented:

1. Financial statements are summaries of the accounts and records of an enterprise.

2. The income statement, the balance-sheet, and the surplus statement are the financial statements most important to the investor.

3. The balance-sheet reports the status of the enterprise at the end of a company's business year. The income statement reports operations—income and expenses—during the year.

4. Financial statements do not profess to show with mathematical exactitude either financial position or profit or loss of an enterprise, but are based largely upon judgment and opinion.

5. No single figure is a reliable indication of a corporation's success or probable dividends.

6. The value of a share of stock of any corporation which expects to remain in business ordinarily depends upon the earnings of the company, not upon its assets.

7. Sources of earnings—that is, whether they result from basic operations of the enterprise or incidental activities—are of primary interest to the investor.

8. The trend of earnings in recent years may be more significant than earnings reported for any single year.

9. "Assets," "liabilities," "surplus," and "reserves," as these words are used in balance-sheets, have technical meanings somewhat different from their ordinary meanings in every-day language.

10. Balance-sheets are essentially historical records. Cost, therefore, is the primary basis at which assets are stated, though current assets are usually carried at the lower of cost or market. Fixed assets are usually reported at cost. Liabilities are generally listed at the face amounts of the debts.

11. Balance-sheets usually include among the assets, in addition to cash and other property, intangible benefits such as goodwill—often listed at nominal amounts—payments made in advance and deferred costs to be charged against future earnings.

12. The presence of surplus or reserves in a balance-sheet has no relation to amounts of cash available nor does it necessarily suggest that a dividend can be paid.

13. Footnotes are an integral part of financial statements and include important information for the investor.

14. The report of the independent auditor, which accompanies most published financial statements, expresses his *professional opinion* as to whether or not the statements adequately present the earnings and the status of the company in accordance with accepted accounting principles consistently applied.

the assets exceeds the sum of the liabilities and capital stock.

"The presence of surplus has no relation to the amount of cash available, nor does it alone justify the expectation of a dividend. The excess amount of assets over liabilities plus capital stock, indicated by surplus, may in a given case be represented by the bricks and mortar of a plant. Few successful and established corporations could pay out to stockholders the full amount of surplus shown in their balance-sheets without seriously handicapping or wrecking their business operations.

#### The Surplus Statement

"BECAUSE of the importance of surplus, this item or group of items is usually analyzed in a special section of the income statement or in a separate form called the surplus statement. This statement shows the amount of surplus at the beginning of

the year, amounts added during the year as income from basic operations and incidental activities, subtractions for dividends distributed from surplus, and the balance remaining in the surplus account at the end of the year.

"Some companies from time to time reflect in surplus various adjustments in other accounts. Frequently, these adjustments include revisions of earnings reported for earlier years. Overestimates or underestimates of income taxes, for example, may not become apparent for a considerable period.

"The presence of a 'reserve' in a balance-sheet does not necessarily mean that the specified sum of money has been set aside for the particular purpose indicated. There are several kinds of reserves in financial statements. Deductions from assets to make allowance for bad debts or depreciation are often called reserves. In addition, there are operating reserves, often described as provi-

sions' for liabilities of indeterminate amounts, such as taxes, or injuries and damage claims; and surplus reserves, which are simply a part of the owners' equity which has been appropriated for such purposes as a 'sinking fund' to provide for retirement of bonds when they become due.

"The accounts from which the balance-sheet is prepared are kept in accordance with the principles of double-entry bookkeeping. This is a device which helps to check the accuracy of the entries and to avoid mistakes. It accomplishes these ends by the simple expedient of entering each transaction twice—once as what is called a "debit" and once as what is called a "credit." An axiom of double-entry bookkeeping is that for every debit there must be a corresponding credit. When all the debits are added together and all the credits are added together, the totals of the two columns are naturally the same. The two sides of the balance-sheets are simply totals of debits and credits, condensed and rearranged. Therefore, the two sides *must* balance.

"**FOOTNOTES**, which accompany most published financial statements, contain supplementary comments and explanations which help the investor to understand and interpret the figures. They also may describe transactions or items which, because of their indeterminate nature, cannot be included in the body of the statements. They may define unfamiliar terms, or they may explain important accounting policies, restrictions on the payment of dividends, or the basis on which items are listed in the balance-sheet.

"These footnotes are an integral part of the financial statement which they accompany. Unless the investor studies and understands them he cannot understand the items to which they refer. Footnotes are required to clarify the meaning of financial statements because accounting depends not only upon indisputable facts but also upon human interpretation.

"**FREQUENTLY**, the investor fails to realize the importance to him of the "auditor's report" which accompanies most published financial statements. Over and over again, anyone who tries to read and understand these statements is struck by the necessity for exercise of judgment in the presentation of almost every item.



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# Paying for National Defense

## Princeton Professor Offers Finance Plan

**T**he practical question of how to pay for national defense has had, until very recently, only casual attention despite its importance. The First Revenue Act of 1940 contained special tax levies to be earmarked for defense, but the unfortunate fact has been that the proceeds of both the First and the Second Revenue Acts of 1940 have not sufficed, thus far, to cover the ordinary federal expenditures apart from the emergency defense program. Since I do not regard the latest increase in the debt limit as an adequate measure, it is therefore correct to say that only after the expiration of almost a year of intensive defense preparation, during which plans have been laid out for spending more than 40 billions on this purpose, do we come at last to a consideration of how and where to get the money.

The creation of a huge mass of specialized defense equipment by a nation, which, until the threat to its security has become imminent, has been concerned only with peaceful pursuits, has involved a frantic rush and a relatively large diversion of current product to the military purposes. Military expenditure involves such a diversion at any time, but when a system of national defense had developed and expanded gradually over a period of years, the annual rate of the diversion of current product from civilian use and consumption is moderate.

In our present circumstances, because of the time element and the immenses scale of the program, the degree to which the result of productive effort must be diverted from ordinary consumption to defense uses is appalling. We have committed ourselves to a huge armament program on our own national account, and we have undertaken, in addition, to become the manufacturing arsenal for England, China and any other coun-

By **HARLEY L. LUTZ**  
*Professor of Public Finance, Princeton University*

try which can hold out against aggression until our supplies are produced and delivered.

### All-out Production

**I**T IS not generally appreciated, as yet, that the "all-out" defense program, when it eventually gets under way, will require a substantial part of our total current production. The critical situation already in evidence with respect to certain materials will spread over a much wider area. This will mean, inevitably:

(1) That the proportion of total goods produced which will be available for civilian use must be materially lessened. The automobile program for 1942 has already been cut by 20 per cent. Other production programs will also be cut. Some materials will be wholly withdrawn from the civilian market. The underlying theory of priority control is the curtailment of private use.

(2) That the standard of living must be correspondingly lowered. Anything that reduces the supply of ordinary consumer goods reduces the living standard, for that standard is far more closely dependent upon the quantity of goods available for consumption than it is upon the supply of purchasing power.

The people, as a whole, are engaged in turning out a great mass of goods of every description, from farm products and iron ore to shoes, clothing, machine tools and ships. This immense heap of goods, valued at current prices, constitutes the "national income produced." Much of it normally emerges as consumer goods, but some of it becomes tools and machinery for use in further production. As already pointed out, a substantial part of it is destined, today, to become the implements and

materials of warfare, and the machines for making munitions.

There is, then, a double drain on our productive forces, for we lose, first, the present opportunity of consuming goods which could have been made had it not been for the defense program; and we lose, second, the addition to our productive tools which could have been made out of the war materials. To illustrate, we shall be deprived of automobiles, and also of the tools necessary to make more and better automobiles, because of the war demand for steel, aluminum, chromium and other metals, and for the machines required to fabricate them into tanks and guns.

### "Income Paid Out"

**T**HE people, as a whole, receive a certain volume of income payments for the work done in production. This is known, in the aggregate, as "income paid out". It consists of salaries and wages, interest and dividends, rents and royalties, commissions, fees, bonuses, and the like. Under normal conditions, the spending and investment of the personal income received absorbs the stock of goods produced. Thus there is a cycle of production payment of incomes to individuals, and a return flow of this income into the productive process through spending and investment.

With the huge defense program thrust into this cycle, requiring for the extraneous purposes of a war a substantial proportion of the total goods produced, the result is that the people will receive a total of income payments much in excess of that required to purchase, at current prices, the goods which will be available for their consumption. The people will be paid for making the total quantity of goods produced, but their consumption will be limited to the goods not taken for the defense program.

There is general agreement that to avoid a disastrous competition for goods, growing out of the fact that the people are in possession of purchasing power disproportionate to the quantity of available goods at current prices, it is necessary to siphon off a substantial part of the excess purchasing power. Unless this is done, and done promptly, price increases are inevitable.

For years there has been talk of inflation, yet none of consequence has appeared, and the old story has been revived about the shepherd boy who frightened the peasants by crying, "The wolf! The wolf!" In the old tale the wolf eventually came and there were no guardians of the flock at hand. Those who have warned of inflation have seen the steady piling up of the materials out of which inflation is made. It has been like the piling up of crates and boxes when the boys are getting ready to celebrate a football victory—safe until somebody touches a match to the pile.

Under the present conditions of increasing strain on productive resources it will be hard to keep the match away from the inflation bonfire. The way to avoid the fire is to dampen the inflation kindling wood by curtailing purchasing power as the supply of available goods is curtailed by the defense requirements.

#### Siphoning Excess Purchasing Power

THERE are two ways of siphoning off excess purchasing power, namely, by taxation or by borrowing in such a way as to absorb a portion of current individual incomes. The Treasury program involves use of both methods. In brief the proposal is:

- (1) Raise two-thirds of the total budget, now estimated at 19 billions for 1942, by taxation, and one-third by loans;
- (2) Borrow from the people rather than from the banks.

Although this program points in the right direction, it is seriously deficient in several respects, to which your attention is directed:

1. It proposes to tax too little and to borrow too much. On the surface the ratio of two-thirds taxes—one-third loans sounds good, but there is no necessary virtue in this formula. There is no assurance that the 1942 expenditures will not exceed 19 billions, but the proposed tax program

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is limited to a figure which would maintain the ratio only if the assumed total were correct.

Furthermore, we must consider the significance of the one-third, in terms of debt increase. Should the tax estimates prove too optimistic, or should the appropriations materially exceed 19 billions, and both contingencies are possible, the required borrowing will exceed six and one-third billions. Indeed, we have excellent prospects, under the Treasury program, of being saddled in a short time with a debt of 90 billions or more. Secretary of Commerce Jones recently warned us to be prepared for a debt of 90 billions.

### Huge Debt Disastrous

IT is my conviction that a huge debt would be the worst disaster that could befall, one that could not be compensated by any number of military or naval victories. On this basis, no financing plan can be adequate or acceptable which does not aim at a cash basis defense, or which, failing of that objective, yet comes close enough to it to keep debt increase at a minimum. It would be a very different matter were we starting from the debt level of 1916, namely, \$1,225,000,000. We have already squandered the cream of our public credit resources. It is not now a question of a first mortgage on our future resources, but of the second and third mortgages. Since 1930 we have been sowing the wind by our debt increase. We shall have great difficulty to escape reaping the whirlwind. We have listened to those false prophets who told us we could spend our way to prosperity, the abundant life, security for all. Now, on the edge of the precipice of financial chaos, we must prepare for defense and possibly for war.

Bear in mind, as you consider the possibility of 90 or 100 billions of debt, that its interest and amortization charges will be added to an enormous post-defense budget, which will include not less than five, and possibly as much as six billions as the annual cost of maintaining the new army and navy. Bear in mind, too, that the real burden of this debt is not to be judged by its relative cost in such boom years as the defense spending may produce, but in the worst years that may lie ahead of us. We do not measure the debt-carrying capacity of a private business by

the ratio of debt charges to earnings in its best years, but by that ratio in the leanest years of the business. Why deceive ourselves with respect to the national debt and its future burden on the people?

Finally, you should bear in mind that the worst menace to our free economic and political institutions lies in an enormous public debt. Debt weakens a nation, and dictators thrive upon national weakness. The principal resistance to anarchy at one end of the scale and to dictatorship at the other, comes from the great middle class. Yet the devastation that will be produced by the violent measures of repudiation which will follow inordinate debt increase will destroy the middle class by destroying its economic and political foundations.

### Obstacles In Way of Popular Loan

IF borrowing is necessary, the correct policy is to borrow from the people, and in this respect the Treasury has at last turned from the folly of past years. But at the same time it has put two obstacles in the way of the success of a popular loan:

(1) Interest on the new bonds is to be fully taxable. To some extent this will restrain sales, and there is every indication that the added interest cost will balance, or even exceed the additional revenue obtained.

(2) The proposed severe increases of income tax, if adopted, will reduce the funds available for bond purchases. The same dollar obviously cannot be used simultaneously for tax payment and for defense bond purchase. If the administration really wants to make the defense loan popular, it should ask for income tax changes to allow credit against gross personal income for such investments.

2. The Treasury's tax program is particularly weak. As its outline reveals, it is merely the first World War tax system with the dust brushed off. The administration's opposition to methods of taxation that would be more effective no doubt prevented consideration of any other than the conventional taxes. But if we limit taxation today to the methods used in the first World War, we shall be making as great a mistake as it would be to send General Pershing's 1918 army, equipped as it was then, into the field against Hitler's 1941 mechanized divisions.

The most vulnerable aspect of the Treasury's finance program is that it proposes to borrow too much, yet its narrow, conventional, discriminatory, unimaginative tax proposals will not produce more than 3.5 billions. To get even this sum it is necessary to resort to excises of the "nuisance", "chickenfeed" variety. If that program is adopted, some of the people will endure crushing taxation now, and in the end will carry their share of a crushing debt burden. It will be as perfect an example of vain sacrifice as was the mass murder of the French army by the tank and air attack of the Germans.

### Small Segment Pays Most

IN particular, the new tax plan is objectionable in that its levies are so heavily concentrated upon a small segment of the people. One-half of the contemplated total of 3.5 billions is to be provided by severely increased rates of income, estate and gift taxes. More than one-quarter of the total is to be provided by heavier levies on corporations, the securities of which are largely held by the same individuals as are to be so severely taxed under the new rates of personal and estate taxation. The remainder is to be obtained from an expanded list of excise taxes, to which these same individuals will also contribute.

Some of the arguments advanced in support of various features of this program are disingenuous in the extreme. For example, it is proposed to retain the present normal tax on personal income, but to regard all income above the personal credits as surtax income and to apply also to the first \$2,000 of surtax income a surtax rate of 11 percent. The reason given is that individuals own eight billion of partially exempt federal securities, interest on which is exempt from normal tax but not from surtax. Therefore, a scale of surtax rates starting with 11 percent on the first dollar of taxable income is said to be required to offset this tax advantage. But in its long campaign against tax exemption the Treasury has argued that tax exemption is a valuable privilege only to the wealthy. Yet they now propose a surtax of 11 percent on the smallest taxable incomes because of the alleged amount of escape from taxation in the lowest income groups by reason of partial tax exemption.

**A**N alternative to the Treasury plan which is favored by many is a federal sales tax. Assistant Secretary of the Treasury Sullivan stated that a general sales tax had been considered and rejected in favor of the new excise taxes. Treasury opposition to all new taxes was put on the general ground of avoiding experimentation in favor of the taxes tested by experience. We are told that the French army preferred the tried and proven methods as against the new-fangled ways of waging war. In fact, neither a sales tax nor a gross income tax is wholly untried.

Mr. Sullivan's specific objections to a federal sales tax are unconvincing:

(1) It would fall "more heavily on the very lowest income groups". More heavily than what, is not made clear. Certainly not more heavily than the burden of price inflation.

(2) It would militate against achievement of the basic principles set forth in the opening of his statement. These objectives were:

(a) "The greater part of the cost of the emergency defense program should be met from current taxes rather than from borrowing." If a sales tax would raise more money than the proposed tax program, the conflict with the objective is not clear—in fact it doesn't exist.

(b) "The taxes should be collected with a minimum of interference with the effective mobilization of manpower, managerial capacity, business enterprise and national resources." These are mere words, so far as the alleged conflict goes.

(c) "The additional tax burden necessitated by the emergency should be distributed equitably among the several segments of our population." But the new program fails to do this. It concentrates the tax burden rather than distributes it.

(3) It would require an elaborate and expensive administrative organization—so will the heavier income and excise taxes.

(4) It would be a double burden on articles already subject to excise—but the new scale of excise taxes raises all of these rates more than a sales tax would.

(5) It is desirable to avoid federal-state fiscal conflict—yet the Treasury has precipitated such a conflict in its campaign to tax state and local bonds. Moreover, the state sales taxes now

apply to sales of all articles covered in the new excises.

#### My Plan for Defense Financing

**I** COME now to my own program for financing defense, which is by means of a substantial tax on all income paid out to individuals, that is, on all payments of wages, salaries, and other personal earnings, and on all interest, dividends, royalties, rents and entrepreneurial withdrawals. The sales tax is an excellent tax, but I prefer the tax on individual gross incomes for these reasons:

(1) Individual incomes provide a larger base than total sales, and a given tax rate will therefore produce more revenue. When the changing composition of the national income and the large proportion of the total that now flows out as wages and salaries are considered, it must be apparent that only a form of taxation which will apply effectively to this vast fund can provide adequate revenue or assure a reasonable distribution of the tax load among all segments of the population.

(2) The sales tax is a levy on busi-



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ness and, either by shifting or by collection as an "extra", it tends to create price distortions. Its effects will vary widely among different businesses. The gross income tax will not disturb relative prices. All of us will be free to make our own decisions regarding the use of the income remaining after collection of the tax without the barrier of special taxes or abnormal price changes.

(3) The individual gross income tax will be collected very largely at the source, just as the social security taxes on employees are now collected. The statements made by Treasury

officials in the new fiscal program are full of references to "ability to pay". No one can define this concept, although all who use it imply that it involves progressive tax rates. Were they asked to say why they want progression, their answer would be that it represents taxation according to ability.

#### What Is Ability to Pay?

IN the hearings before the Ways and Means Committee Assistant Secretary of the Treasury Sullivan defined ability taxes as "those taxes which are graduated in accordance

with the ability of the taxpayer to pay." This is about as close as we usually get when we ask for a definition of ability.

I have pointed out many times that insofar as receipt of income signifies ability to pay taxes, it does so only when the money is in hand. Therefore the only true and sensible practical application of ability is to collect the tax as the income is received. This is what my tax does, by deducting the tax from each item or installment of income as it is paid out. Anyone can endure a heavier tax, if collected at the source, than can be endured if payment must be made in a few large installments long after the income on which the levy has been made has been spent. The English are now subject to a standard income tax rate of 50 per cent. They can endure such a rate only because of widespread collection at source.

The Treasury's scheme of selling a special security as a means of saving to pay income tax is an admission of the soundness of the criticisms I have made for years against the present system. The expressions "net income" and "progressive rates" are sacred cows, worship of which prevents realization that the only sensible way to tax income is as that income passes to the individual.

(4) The tax on gross incomes, collected at source, would begin to produce revenue at once. There would be no lag, such as we now have. The income tax lag is an inflationary influence because of the necessity of short-term borrowing, usually from banks, in anti- (Contd. on p. 38)

#### Plan Michigan credit parley

Battle Creek—Arrangements for the annual state conference of Michigan units of the NACM to be held October 16 in Kalamazoo were advanced at a meeting of the association representatives in the Hart Hotel here on July 8. Present at the meeting were representatives from Battle Creek, Detroit, Grand Rapids, Lansing, Jackson, Saginaw, Bay City and Kalamazoo. Arrangements for the local meeting were in charge of T. J. Lyon, Credit Mgr., Kellogg Co. Kenneth Bunting, Crown Paper Co., Jackson, presided.

#### 44 States

During the past winter and spring months the legislatures in 44 states passed laws affecting trade. These changes will appear in the 1942 Credit Manual of Commercial Laws.

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# 13 States Have Most Buyers

## Purchases Exceed Other 35 States

**C**redit men and financial officers who look with broadening vision to the final net profits of their companies are now cooperating with their sales departments to help in every way possible to increase sales. Credit men are in just as advantageous a position to know about the activity of markets as are sales managers. A market may be classified as "active" in the sales department but the credit and collection department knows from its records if these "active" markets are really profitable. The following extract from a recent article in the Wall Street Journal of New York City will be of deep interest to these sales-minded credit men.

"Are you trying to sell something? Well, here's a tip. Concentrate your activities on 13 states (we'll name them in just a minute) and you'll be tapping the bulk of the nation's buyers.

"Residents of these 13 states, in which live more than 58% of the country's total population, buy more goods and services than all the other 35 states combined. And, this is important, approximately three-fourths of the country's individual federal income taxpayers reside within their boundaries.

"Here they are: California, Connecticut, Illinois, Indiana, Massachusetts, Michigan, Missouri, New Jersey, New York, Ohio, Pennsylvania, Texas and Wisconsin.

"As you probably noticed, the nation's star customers are not confined to any one section of the country, although a good portion of them are located in the industrial areas of the middle west and the east.

"But you don't have to take our word for any of this. It's all down in black and white, with a lot more, in the latest revised edition of Population and its Distribution, compiled by J. Walter Thompson Co., and published

by Harper & Bros. Some of the other pertinent facts to be found in this volume are an alphabetical list of all incorporated places with a population of 500 or over; number of persons per income tax return for each county; distribution of population, both in terms of individuals and family units.

"In addition, there are summary

### How We Stand in These 13 States

The average monthly circulation of Credit and Financial Management for the six months ending on June 30, was 22,310. The statement of circulation issued to advertisers shows that C. & F. M. circulation in the 13 states named in this article for the past six months was:

California	2,293
Connecticut	277
Illinois	1,466
Indiana	893
Massachusetts	604
Michigan	1,063
Missouri	998
New Jersey	259
New York	3,663
Ohio	1,440
Pennsylvania	1,449
Texas	605
Wisconsin	456
Total	15,466

tables covering states by population, occupied dwellings, income tax returns, residential telephones, wired homes, radio homes, automobile registrations and major groups of 1939 retail sales.

"But let's get back to our 13 states. A quick glance at the figures shows us that 68.19% of all residence tele-

phones are located in these states, as are 63.26% of the total passenger automobiles, and 63.38% of home radios.

"Heading the list, of course, is New York. With 10.24% of the country's total population, the Empire State has 17.26% of the nation's income taxpayers, 11.33% of its residence telephones, 8.89% of passenger cars and 11.27% of all home radios.

"A rather interesting situation is revealed by the figures for California. This state has only 5.25% of the nation's population, but its percentage of income taxpayers, telephones, automobiles and radios is much greater, being 8.66%, 8.01%, 8.82% and 6.33%, respectively.

"Indiana presents an odd picture. Here's a state which accounts for 2.60% of the total population and has only 2% of the country's income taxpayers. But despite this, the figures show it has a greater percentage of automobiles than several other states which have larger percentages of both the population and taxpayers.

"For example, Indiana's percentage of automobiles is 3.24% while that of Massachusetts, which has a population figure of 3.28% and income taxpayers of 4.89%, is only 2.94%.

"Figures for states outside the select 13 are rather revealing, too. There's Mississippi, for instance. This state's share of the total population is 1.66%, but its share of other things, including income taxpayers, is considerably less.

"That income taxpayers are scarce in Mississippi is evident from the fact that such individuals there account for only 0.33% of the total for the country. Residence telephones are equal to 0.37%, passenger cars, 0.71% and home radios, 1.07%.

"The foregoing is just a brief resume of what you'll find in the book's 429 pages, but it's enough to give some idea of what it's all about."

# Latin American Credit Survey

## 26th Semi-Annual Report on Collections

**C** Commercial credit and collection conditions in 21 Latin American markets and the British, French and Netherlands possessions in the West Indies showed a decided improvement during the first six months of 1941, and continued the definite upward trend indicated in the preceding survey covering the final six months of 1940.

Apparently, there has been a definite return of confidence in the immediate future of Latin America on the part of American manufacturing exporters reflecting a similar feeling that has been consistently reported by recently returned business travelers from that area. This situation reflects the effective work on the part of our own governmental agencies, the Department of State, Department of Commerce, Treasury Department, Reconstruction Finance Corporation, Export-Import Bank, and the Rockefeller Committee on Commercial and Cultural Relations Between the American Republics. All of these agencies have, in turn, been receiving the utmost cooperation on the part of governmental agencies of various Latin American Republics. It emphasizes, too, the understanding and goodwill that exists between Latin American and our own foreign traders and indicates that the necessities of each will receive mutual and sympathetic consideration.

Latin America is at the moment being intensively developed as a source of strategic and critical materials necessary to our own Defense Program. The United States is making every effort to increase its stock piles of tin, manganese ore, copper, nitrates and other minerals, and we have also materially increased our imports of wines, cheese and other Latin American farm surpluses. These increased imports and a continued development of Latin American resources are all part of a gigantic Western Hemisphere defense program. By increasing our imports of

By **KENNETH H. CAMPBELL**  
*Manager, Foreign Credit Interchange  
Bureau, National Association of  
Credit Men*

these various items, we help the Latin American countries avert the consequences of the loss of their European markets. The dollar exchange thus created helps in laying a firm foundation for a sound internal commercial credit structure in most of these countries. With only one or two exceptions, this improvement in business internally is reflected in the current survey. For example, for the first time since this Survey was instituted thirteen years ago, no market is classified as "Slow" or "Very Slow" in commercial collections.

Our government has embarked upon a program of preemptive buying in some of these markets. We are going to buy Brazil's surplus of all strategic raw materials for a two year period, primarily manganese ore, and efforts are being made to work out a similar program in Mexico. While it is true that many of the countries under survey have exchange and import restrictions of one sort or another, apparently when these regulations are observed and adhered to, no difficulties are encountered in securing prompt payment of commercial drafts, provided, of course, that the credit responsibility of the ultimate buyer is above reproach.

American exporters hope that the recent acquisition of ships which they understand will be allocated to the South American run, will alleviate the shipping shortage which has come about due to the transfer of vessels to our Army and Navy needs. When it is so necessary to provide the minimum needs of the South American countries and to preserve the channels of trade for the post-war period when very keen competition may be expected, exporters believe that every effort should be made to further im-

prove our trade relations with our friends to the south, and every effort should be made to alleviate any situation that places them in a critical position due to their inability to obtain the necessary imports to maintain their internal economy. Some disruption of normal trade is unavoidable in the light of Western Hemisphere defense needs, but every effort should be made to bridge the gap and assure an uninterrupted flow of necessary materials to our Latin American friends.

While admittedly a brighter picture exists in most countries insofar as the average Latin American business man is concerned, they are disturbed, as are most American business men, with the problem of "inability to get." It is quite possible that the hemisphere defense program will accelerate this problem in the immediate future. It is to be hoped that our increased imports from this part of the world will make available the necessary shipping space to take care of increased exports that Latin Americans hope to purchase in this market.

The immediate task ahead is to develop, nourish, and maintain a stable consumption in the United States of Latin American products. Figures indicate that in April, 1941, U. S. imports from Latin America were running at a monthly rate, which, if maintained for a twelve months period, would show in dollar figures of import value, the importation of twice the normal purchases of Continental European countries from Latin America. If this figure can be maintained in the post-war period, the Latin American dollar exchange problem will be well on its way to ultimate solution.

More than 200 American manufacturers located in all parts of the country, members of the Foreign Credit Interchange Bureau of the National Association of Credit Men, the majority selling in all of the markets surveyed, contributed information

upon which this survey is based. They are exporting all types of manufactured products on terms ranging from sight draft to 120 days date draft and, therefore, their combined experiences on current credit and collection conditions are of great value.

In compiling this survey, no consideration is given to the question of governmental debts or service obligations, and the classification of "Credit Conditions" refers to the situation within the various Latin American markets from the commercial point of view only, as judged by exporting American manufacturers. Comments made by those replying to the survey under the general heading "Collection Conditions" may be considered as indicating the current trend based on the definite experience of American manufacturers having commercial collection items in the markets surveyed.

#### CREDIT CONDITIONS

THE first half of 1941 showed a forward movement on the credit index on the part of eighteen countries, and in many instances this improvement was substantial. Members will recall that the survey covering the last half of 1940 showed a forward movement on the part of some seventeen countries, and in most instances, in the opinion of the members of the Foreign Credit Interchange Bureau contributing to this survey, this improvement has been accelerated during the first six months of 1941. Five countries moved down on the credit index during the six months period under survey, but in no instance were any of these drops very severe. One indicated "No Change."

*Good:* Netherlands Possessions, Panama, Puerto Rico, Mexico, Argentina, Peru, Brazil, British Possessions, Colombia, Cuba and Uruguay.

Colombia, Cuba and Uruguay are newcomers to this group, moving up from their previous classification of "Fairly Good" six months ago. All of the countries in this classification showed a forward movement on the credit index, with the exception of British Possessions which registered "No Change."

*Fairly Good:* Venezuela, Guatemala, Dominican Republic, El Salvador, Chile, Bolivia, Costa Rica and Ecuador.

Chile, Bolivia and Ecuador are newcomers to this group. Chile and Ecuador moved up from their pre-

vious classification of "Fair," and Bolivia from its previous classification of "Poor." Incidentally, Bolivia showed the greatest improvement of any country on the index of credit conditions, moving up thirty-six points.

*Fair:* Paraguay, Haiti and Honduras.

Haiti has been in this group on the last three three surveys. Paraguay has moved down from its previous classification of "Fairly Good" to "Fair," and Honduras has moved up from its previous classification of "Poor."

*Poor:* Nicaragua.

Nicaragua showed a decided forward movement on the credit index, but not quite enough to move up into the next highest classification. Apparently, however, an improved trend is indicated and if it continues, this country should move forward to the "Fair" classification at the end of 1941.

*Very Poor:* French Possessions.

#### Collections

As mentioned previously, for the first time in the history of this Survey, none of the (Contd. on p. 37)

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## Memphis Zebras enjoy barbecue

Memphis—The Zebra Herd of the Memphis ACM held a Barbecue in July, arranged by Zebra Ed Moseley and his committee. At the June monthly meeting, boating and fishing preceded a seafood supper at the new summer home of Zebra W. F. Bradley on Lake Shakoka at Maywood, Miss. Twenty-five were in attendance to pay honor at the meeting of Grand Exalted Superzeb George W. Wilkins who was chosen to head the national group at the New Orleans Credit Congress in May.

Government defense work has claimed the services of Zebra E. A. Murphree a past President of the Memphis Assn.



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## Burglary & Forgery

## Insurance



## NATIONAL SURETY CORPORATION

VINCENT CULLEN  
President

## New Orleans stages big "Victory Dinner"

The capsheaf of the Convention Committee work for the 46th Annual Credit Congress was held by the New Orleans Credit Men's Association Thursday evening, June 26th, in the air-conditioned Tulane Room, Jung Hotel, scene of the Credit Congress sessions in May.

The President of the New Orleans Association, Albert P. Spaar, Woodward Wight and Company, Ltd., opened the meeting, turning it over to Ned Pilsbury, Past National President and General Chairman of the Convention. Others seated at the head table were National Director J. A. Monier, Jr., Wesson Oil and Snowdrift Sales Co., and Frederick H. Schrop, Convention Director, various members of the Executive Committee and their wives. Rectangular individual tables, seating eight, beautifully decorated, surrounded a hollow dancing square in front of the speakers' table. Among the elaborate decorations was the official flag of the National Association newly-adopted at the 46th Credit Congress.

Henry H. Heimann, Executive Manager, expected to be present but was detained owing to urgent duties in Federal defense work to which he was recently assigned. His message was delivered by Mr. Schrop.

Chairman Pilsbury called on the various committee chairmen for brief addresses and insured the briefness of each speaker by obliging him to hold a small piece of ice and to talk only until it dissolved. Letters complimenting the Convention from all over the country were mentioned and, following the dinner, dancing and gaiety ensued.

## LACMA picks Walton

Los Angeles—On the occasion of the annual Trade Group Night of the Los Angeles CMA, held at the Los Angeles Breakfast Club on June 20, the annual election of officers and directors took place. The following were given the unanimous vote of the 450 members present: *Pres.*—M. C. Walton, Southern Calif. Telephone Co.; *1st Vice Pres.*—Wm. A. Taylor, Arden Farms, Inc.; *2nd Vice Pres.*—Walter T. Lundquist, Pacific Perforating Co., Ltd.; *Treas.*—Bryant Essick, Essick Machinery Co. *Directors* are: Clara M. Harrison, Hunt-Broughton & Hunt, Inc.; W. W. Loop, Grinnell Company of the Pacific; J. N. Rossell, Dohrmann Hotel Supply Co.; Lester F. Fishbeck, Coast Packing Co.; H. R. Olson, General Electric Supply Co.; K. J. Koebig, Liquid Carbonic Pacific Co.

## Position Wanted

Fifteen years experience in credit management, 12 of which with my present employers, a national concern, having jurisdiction over the credits and collections of five branches in the south. Age 45, married. Available on short notice. Address Box 8-A, Credit and Financial Management, One Park Ave., New York, N. Y.

## Paul Fielden, advanced, is Norton Co. purchasing head

Worcester—Norton Company, Worcester, manufacturers of grinding machines, grinding wheels and other abrasive products, has announced the appointment of Paul Fielden as director of purchases. Mr. Fielden has been connected with the company 21 years as assistant credit manager and credit manager. He has been prominent in local and national credit men's associations and in 1937-1938 was president of the NACM.

John Miller, for a number of years assistant credit manager of Norton Company, succeeds Mr. Fielden as credit manager. Mr. Miller has also been active in many posts with the local credit association.

Marcus W. White retains the position of purchasing agent, which he has held with the company for many years.

## Officers chosen at Amarillo

Amarillo—The annual meeting of the Amarillo Assn. was held June 9 at the Capitol Hotel. Guest speakers featured in the program were J. L. Vance, Sec.-Mgr., and A. A. Martin of El Paso. Entertainment was furnished by the singing and playing of John Bennett from the Myers Music Co. Mr. and Mrs. Billingslea of Lubbock were guests.

J. E. Proper, Panhandle Fruit Co.; G. W. Camp, Globe News Publishing Co.; and Charles H. Young, Borden and Co., were elected to the Board for the next three years.

At a meeting of the Board immediately following the general meeting, the following officers were elected: *Chairman*—S. J. Elkins, Texas M. and M. Co.; *Vice Chairman*—Charles H. Young, Borden and Co.; *Treasurer*—Grady W. Camp, Globe News Publishing Co.

## Pixley heads R. I. credit men

Providence—At the annual meeting of the Rhode Island Association of Credit Men, Charles G. Pixley of the Newell Coal & Lumber Company was elected President. Other officers elected to serve with him are as follows: *First Vice-President*, E. William Lane, American Screw Company; *Second Vice-President*, Sydney J. Hoffman, Franklin Auto Supply Company; *Secretary*, Joseph F. Madden, Nicholson File Company; and *Treasurer*, William H. Richard, Providence Pipe & Sprinkler Company.

An Executive Committee of three was also elected as follows: Clarence H. Rison, Grinnell Company, Inc.; Howard S. Almy, Collyer Insulated Wire Company; and Camilo Rodriguez, Davol Rubber Company.

Henry T. Farrell was re-appointed Executive Secretary of the Association and Manager of the Adjustment Bureau. The Association's Board of Directors are the following:

Clarence H. Rison, Grinnell Company,

Inc.; Charles G. Pixley, Newell Coal & Lumber Co.; E. William Lane, American Screw Company; Sydney J. Hoffman, Franklin Auto Supply Co.; Shirley Harrington, Mechanics National Bank; Frederick R. Fishlock, Armour & Company; Howard S. Almy, Collyer Insulated Wire Co.; Camilo Rodriguez, Davol Rubber Company; Joseph L. Price, Equitable Fire & Marine Insurance Company; Leonard E. Johnson, Gladding's, Inc.; F. Elmer Havens, Hope Webbing Company, Inc.; Harrison J. Day, The Narragansett Electric Co.; Frank M. Hynes, The New Method Finance Corp.

Joseph F. Madden, Nicholson File Company; George H. Smith, Petroleum Heat & Power Co.; James M. Goldrick, Pittsburgh Plate Glass Co.; Harry A. Lee, Providence Journal Company; Rupert C. Thompson, Jr., Providence National Bank; William H. Richard, Providence Pipe & Sprinkler Co.; M. Norman Hanson, The F. E. Spencer Company.

The Association's Adjustment Bureau for the current year is under the direction of President Howard S. Almy; Vice-President James H. MacNaughton, of Congdon & Carpenter Company; Treasurer Clarence H. Rison; and Secretary E. William Lane. Directors of the Bureau are Charles E. Allen, Manchester & Hudson Company; Harry A. W. Hayward, Brown & Sharpe Mfg. Company; William I. Spalding, Oliver Johnson & Co., Inc.; and Camilo Rodriguez, Davol Rubber Company.

### El Paso men honored

El Paso—William Peterson, of Peterson Lumber and Paint Co., was recently elected President of the El Paso Rotary Club for the year beginning July 1, 1941.

William Blair, Southwestern Portland Cement Co., has been appointed Area Coordinator for the Defense Contract Service, O. P. M. This territory extends from Stanton, Tex. to Ajo, Arizona.

### Baltimore credit men start Red Pencil Club

The Red Pencil Club has been formed in credit circles here with Howard Michel, of the First National Bank, as president, and will hold regular luncheon meetings the third Wednesday of each month. William Marshall, of Butler Bros., is vice-president of the group, and George J.



Mr. Michel

Lochner, of the Baltimore Association of Credit Men, secretary-treasurer. The board of governors comprises V. T. Douglas, of Procter & Gamble Distributing Co.; Charles Pardee, of Commercial Credit Co.; Arthur L. Franklin, of Pittsburgh Plate Glass Co.; Lemuel Kemp, of Union Trust Co.; and William E. Dodge, of William Deiches & Co.; plus the officers of the club.

The Red Pencil Club is the brain child

of Mr. Douglas, who, assisted by William E. Moore, of the U. S. Fidelity & Guaranty Co., brought the club into existence. Those who become members during the remainder of the year 1941 are to be classed as charter members. Thereafter admission will be by vote of the club upon recommendation of the board of governors.

The entertainment committee consists of Paul E. Hunter, of American Credit Ind. Co.; William Wellmann, of H. P. Cann & Bro. Co., and Stanley Trott, of Maryland Trust Co., together with the officers. The club has already held its first affair with the serving of a buffet supper at the Budweiser plant, followed by attendance at the boxing bouts at the Coliseum.

The membership to date includes: Earl Bromwell, Maryland Trust Co.; Godfrey Herder, Baltimore National Bank; Harvey Emmart, Baltimore National Bank; Hugh F. B. Kerr, R. W. Norris & Sons; Jacob Pfeiffer, J. P. Pfeiffer & Son; William Wellmann, Harry P. Cann & Bro. Co.; Henry Cohen, Loewy Drug Company, Inc.; Ryland G. Bristow, Lyon, Conklin & Co., Inc.; V. T. Douglas, Procter & Gamble Dist. Co.; Paul Hunter, American Credit Indemnity Co.; Wm. Marshall, Butler Bros.; Charles Pardee, Commercial Credit Co.; Henry Reth, Hubbs & Corning Co.; Arthur L. Franklin, Pittsburgh Plate Glass Co.; F. C. Bortner, Hynson, Westcott & Dunning, Inc.

George J. Lochner, Baltimore Association of Credit Men; Paul Millians, American Credit Indemnity Co.; Howard Mi-

chel, First National Bank; Stanley Trott, Maryland Trust Co.; Morris Powdermaker, London Guarantee & Accident Co.; Lemuel Kemp, Union Trust Co.; George J. Clautice, Lincoln Nat. Life Ins. Co.; Wm. E. Moore, U. S. Fidelity & Guaranty Co.; D. C. Ward, Union Trust Co.; Walton Loevy, American Credit Ind. Co.; Fred Reapsomer, Stationers, Inc.; Henry Meyer, First National Bank; Charles Doud, Arundel Corporation; George T. Brian, Jr., Noxzema Chemical Co.; William E. Dodge, Wm. Deiches & Co.; Louis Lohrfink, General Elec. Supply Co.; R. C. Smoot, The Baxter Paper Co.; Oseian Hickman, Baltimore Association of Credit Men; A. Vander Horst, Wm. H. Cole & Sons; Fred Hall, Sherwood Brothers; Paul Costin, Dun & Bradstreet, Inc.; Louis Heil, Ditch, Bowers & Taylor, Inc.; W. Kemp Walker, Ditch, Bowers & Taylor, Inc.; John D. Sitzler, F. G. Schenuit Rubber Co.; Chas. M. Canedy, The Black & Decker Mfg. Co.

### Plan meeting for September

Albuquerque—Plans are now being considered for a general membership meeting early in Sept. at which it is expected to have as guest speaker the Executive Manager of the NACM, Henry H. Heimann. At the Association's annual meeting in June the following officers were elected for a one-year term: *Chairman*—Jack Parker, Spitzer Electrical Co.; *Vice Chairman*—



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	Rochester, N.Y.
	San Francisco, Cal.
	Springfield, Mass.
	Tampa, Fla.

B. L. Wiles, Albuquerque Gas and Electric Co.; *Treasurer*—Guido Giomi, Albuquerque Natl. Trust and Savings Bank.

Edward Hackman, Hoch's 48th Star Mills, and O. W. Lasater, Gross, Kelly & Co., were elected to the Board of Governors for a two-year term.

Board members now serving their second year are: C. E. Blue, New Mexico Tank and Culvert Co.; J. J. Hayes, Crane O'Fallon Company.

Retiring Board Members are: Ted Diekman, New Mexico Paper Company; Bob Elder, Albuquerque Natl. Trust and Savings Bank; J. Bryan Stephenson, Linder Burk and Stephenson.

Joe Ruvolo, Sunny State Distributing Co. and retiring Chairman of the Board, presided at the meeting.

Short talks were made by: J. L. Vance, Sec.-Mgr.; Miss Annie Porter, Santa Fe Builders Supply Co.; Lillian Dolde, Pres. of the Credit Women's Club.

Wilmot Duplentis reported on the Association's Educational Program and H. V. Vance reported on the Association's progress during the past year. Errett Van Cleave, National Director, described the National Convention recently held in New Orleans and business prospects in general.

Wm. B. Johnson entertained the meeting with a discourse on "How Not to Make a Public Speech." He followed this with a most instructive talk on "Salesmanship in Credits."

### C. H. Sondhaus is chosen San Francisco President

San Francisco—The Credit Managers Assn. of Northern and Central Calif. held its annual meeting on June 19, followed with a Board of Directors meeting on June 30. New officers have been chosen to guide the association during the current year and chairmen of standing committees have been appointed early so that committee organization will be completed before the end of the summer.

Succeeding D. M. Messer as President of the association is C. H. Sondhaus of the National Lead Co., who last year served as Vice President. J. S. Ferns, of the Colgate Palmolive Peet Co., was reelected as one of the association's Vice Presidents and J. F. Jensen was likewise elected Treasurer. Mr. Jensen is with the Golden State Company, Ltd. Replacing Mr. Sondhaus in the Vice Presidency which he vacated is A. I. Hermann of the Union Lumber Co. Mr. Hermann served during the past year as a director of the association. O. H. Walker continues as Secretary-Manager of the organization which has general offices in this city and affiliated offices in Fresno and Sacramento-Stockton.

### Cauley, Toledo, resigns

Toledo—Daniel Cauley, who for the past few years has held the post of Secretary-Manager of the Toledo Association of Credit Men, resigned early in July. The post is being filled by C. Howard Saberton.

### Hughes named Manager of Portland's Estates Dept.

Portland, Ore.—M. S. Hughes was recently appointed Manager of the Estates Department of the Adjustment Bureau of the Portland ACM, succeeding G. W. Ingram, who died in April. Mr. Ingram was affiliated with the Bureau for over 23 years.

Mr. Hughes was associated with the organization for several years prior to 1936, leaving it to become credit man for the Portland area with the General Motors Acceptance Corp. Then he became special collection manager for the firm in Spokane, following which he resigned to join the Vancouver Evening Columbian of Vancouver, Wash., where he held the post of Credit Manager and then was transferred to the Advertising Dept., in which he was in charge of many large accounts. Mr. Hughes serves under E. W. Johnson, who is Executive Vice Pres. of the Adjustment Bureau.

### Moran given post

Chicago—E. B. Moran, NACM Central Division Manager, was recently chosen Treasurer and Director of the Chicago Sales Executives Club.

### Seattle golf Journey, Aug. 13

Seattle—The annual picnic of the Seattle ACM was held at the Shrine Country Club on Lake Ballinger on July 19, with a picnic lunch and a long list of games and contests followed by dancing in the evening. The program was also featured by special entertainment sponsored by the Seattle Credit Men's Club.

The 13th annual golf tournament of the Seattle Assn. will be held on Aug. 13. A special tournament for the ladies on a separate course will provide all-around activity while the men's tournament is held at the Sand Point Golf and Country Club.

## Credit Career

### Ralph D. Gregory

Los Angeles—Prominent among young educational leaders on the West Coast is Ralph D. Gregory, Chairman of the Credit Education Committee of the Los Angeles CMA. He is Sec. and Credit Mgr. of Grimes - Stassforth Stationery Co. His firm is a leader in the office supply business, and is one of the pioneer concerns of Los Angeles, having been established in 1870.

Mr. Gregory has been identified with the credit and collec-



tion field for many years, and joined Grimes-Stassforth Stationery Co. in 1931.

Credit education has long been a hobby with Mr. Gregory. For the past several years he has addressed the students at University of Southern California, and The University of California at Los Angeles on problems of credit management. He is a strong believer in the use of modern methods in teaching credit principles and techniques, and recognizes the necessity of cooperation between business men and the universities.

Mr. Gregory is a Zebra and has contributed to the Association in other activities, having served as Chairman of the Stationery and Office Equipment Trade Group for two terms. He is in demand as a speaker on credit matters, and recently addressed the Credit Women's Club on the subject of "Credit Sales Promotion." He is an active member of the NIC, serving in an advisory capacity and frequently as Master of Ceremonies at the forum meetings.

### Indianapolis C-men ask non-defense cuts

Washington, D. C.—The July 15 issue of the "Congressional Record" carried extension of remarks by Hon. Louis Ludlow of Indiana in the House of Representatives. The material was headlined "Indianapolis Association of Credit Men Leads the Way Toward Fiscal Reform."

The Indiana representative stated that "the Indianapolis Association ranks at the very top of organizations of American business men."

He declared that the Credit Association has established a goal of two billion dollars to be cut from non-defense expenditures of the Federal government.

The Congressional Record then carried a list of over 200 association member-firms which have petitioned the Ways and Means Committee to support a reduction of non-defense expenditures.

In this connection, it is noted that an editorial on non-defense expenditures by NACM Executive Manager, Henry H. Heimann, is carried on page two of this issue of "Credit and Financial Management."

### C-women hold outing

Binghamton—The Triple Cities Credit Women's Club staged the first of a series of three summer outings at Agfa Lake on July 17. The occasion featured bathing, soft ball and other games and a dinner around the camp fire.

### C-men hold joint frolic

French Lick, Ind.—The week-end frolic of the Louisville CMA and the Lexington CMA was held here on July 19. Credit executive members of the two bodies spent the day at the French Lick Springs Hotel and enjoyed golf on Saturday afternoon, as well as a bridge tea, followed by dinner and dancing, with the return home scheduled on Sunday afternoon.

## Credit Cards Speed Deliveries at Yards of Big Rock Company

(Contd. from p. 6) involved in the transaction. Arriving daily from the various branches and plants, these reports are checked immediately. Any tendency to pyramid credit purchases at a number of branch plants can thus be spotted immediately, and if this involves extraordinary risk be given the necessary attention in our credit department.

The yardman attached to each yard or bunker must exercise special caution to spot any possible misuse of the credit card by any individual other than the one designated by the customer. He has the advantage of knowing many of our customers by sight, which simplifies his task. Usually he takes the precaution of noting license numbers of trucks used by customers' representatives, checking this item of information whenever he makes a sale. From the credit department he receives "stop credit" notices and other information when credit cards are cancelled.

### How Yardman Helps

IN view of the fact that the yardman frequently deals not directly with the customer but with the latter's employee, he must exercise discretion in all matters connected with credit, especially when he has been instructed to discontinue credit. In such circumstances it is customary to suggest to the truck driver that his employer get in touch with the credit department. In the meantime, it is customary for our representative to allow the current charge to go through. Needless to say, our company's representative at the branch yard or bunker is instructed under no circumstances to discuss the condition of the account with the customer or his employee.

Thus far we have given no publicity to the credit card practice, nor have we attempted to apply it to more than a hand-picked group of accounts. Nevertheless, we do from time to time receive requests from some of our customers for extension of the credit card privilege. They have heard about it from others of our customers. This presents a ticklish situation which we have learned to meet tactfully. The applicant is usually re-

quested to fill out a special application form which we have designed for the purpose. In addition to information of a personal nature the applicant is required to furnish a great deal of credit data, with names of firms with whom he has had credit relations, banking references, and so forth. Among other items he is required to estimate his monthly credit requirements.

## Latin American Credit Survey

(Contd. from p. 33) markets surveyed is evaluated on the collection index as being "Slow" or "Very Slow" based upon the comments received from members of the Foreign Credit Interchange Bureau who kindly furnished their information. Twenty of the markets under survey showed an improvement on the collection index, and four showed a decline, but in all four instances this decline was very slight.

*Prompt:* British Possessions, Peru, Puerto Rico, Argentina, Panama, Mexico, Uruguay, Cuba, Brazil, Netherlands Possessions, Domini-

can Republic, Haiti, Guatemala, Colombia, Ecuador, El Salvador, Chile, Venezuela, and Bolivia.

As of July, 1940, nineteen countries were included in this classification, and in January, 1941, fifteen countries warranted the classification of "Prompt." In the current survey, nineteen markets again warranted this classification with an upward trend in the collection index registered in seventeen, and a downward (very slight) trend in two. Venezuela and Bolivia have made a sharp recovery on the collection index, moving from their previous classification of "Slow" to "Prompt." Venezuela showed the greatest gain in the collection index of twenty-eight points.

*Fairly Prompt:* Costa Rica, Paraguay, French Possessions, Honduras and Nicaragua.

Costa Rica is a newcomer to this group, moving down from its previous classification of "Prompt." French Possessions, Honduras and Nicaragua all showed an improvement on the collection index, sufficient enough to move up on this survey from their previous classification of "Slow."

*Slow:* None.

*Very Slow:* None.

Should  
**COST** be your  
primary consideration in  
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IF low cost is combined with proper security and prompt service—then it becomes a major factor.

We have saved our policyholders a total of \$2,601,925—and we can save money for YOU. Our 20% dividends over a period of years are substantial proof of this statement.

## BERKSHIRE MUTUAL FIRE INSURANCE COMPANY

Pittsfield, Mass.—Incorporated 1835

A MEMBER COMPANY OF THE ..



"Over 105 Years of Service Through Local Agents"



# Paying for National Defense

(From p. 30) pation of tax payments. There are two objections which must be considered:

## Low Incomes Must Pay

FIRST, it is held that the burden would be too great on the low income groups. My answer is that these groups cannot escape a share of the burden. A serious price inflation would be a far greater burden than my tax, and my tax is the best assurance we can provide against the greater burden of inflation, for it will keep borrowing at a minimum. A minimum of debt increase is our best cushion against burdensome taxes and general economic disaster in the post-defense years.

The second objection is that collection will be difficult in the case of farmers, the professional groups, and other self-employed persons. This is the reason given by Mr. Sullivan for rejecting the tax on gross incomes. But he did not explain how the farmers would be reached by the present federal tax, nor did he realize, apparently, that the present net income returns would provide an adequate informational check on the gross personal incomes of the self-employed. It is true that collection at source cannot be used in such cases, and that a system of individual returns will be necessary. The Treasury has no concern over the prospect of 8,000,000

additional small income returns under the present income tax, but it regards the matter of individual returns under my tax as an insuperable obstacle.

In conclusion, I can only set down in the briefest summary form without comment, some final points:

(1) There should be no exemptions or deductions.

(2) I have proposed a rate of 10 per cent, in view of the urgent need of revenue.

(3) The existing federal taxes must be kept, but their rates should not be changed. Computation of net income tax should begin with the income actually received after deduction of the gross income tax.

(4) Finally, in order to minimize both the taxation and the borrowing, the non-defense expenditures should be drastically reduced. The National Economy League has just proposed possible budget reductions below the original estimates for the fiscal year 1941-1942 totalling \$1,580,000.00. Many persons were shocked by the Senate action in adding some \$400,000,000 to the farm subsidy. This was shocking, but the really scandalous part was the original proposal to spend upwards of a billion on this purpose at this time. Every dollar that can be spared from the non-essential public expenditures at this time is a dollar available for defense without adding to the total of the public debt.

## "Freezing Control" in Domestic Trade

(Cont. from p. 15) are possibly members of the Foreign Credit Interchange Bureau of the National Association of Credit Men which Bureau has helped considerably to clear up quite a bit of confusion which originally existed with reference to the regulations issued under this order. Their Weekly Bulletin is sent to all members and contains a summary of discussions and opinions obtained from reliable sources. Perhaps a discussion of the matter with your Export credit manager regarding his problems would also help domestic credit men in handling transactions

with firms who might be affected by the requirements of the order.

Under the regulations every person in the United States having property (see definition in Executive Order #8389) in which any foreign country or national thereof had any interest of any nature whatsoever is required to file a report on form "TFR 300" on or before August 30, 1941. One list to show such property held on June 1, 1940, another list to show property held on June 14, 1941.

Further information regarding reports to be filed and copies of forms may be obtained from your local bank or from any Federal Reserve Bank.

\* \* \*

In the enforcement of this order it is believed that the credit department

and its staff can be of considerable assistance to anyone in its organization due to the fact that reports containing the necessary information as to nationalities are available in the Credit Department's files which have been accumulated in, most cases, over a number of years. Therefore, you should cooperate with the other Departments in your firm and notify anyone who you feel is interested in the nationality of your customer upon determining whether or not your customer is affected by this Executive Order.

An important Penalty Clause has been inserted in the Freezing Control Order to the extent that whoever willfully violates any provisions of the Order is subject to a fine of \$10,000.00 or ten years' imprisonment upon conviction. Due diligence, therefore, should be taken by the Credit Department to determine fully the effect of this order as it applies to ordinary business transactions.

To date over fifty general licenses have been issued since the original order became effective which have helped simplify a great many transactions which would have originally been subject to specific or special license. In view of this it is believed that those firms who will be subject to special licenses, according to the Treasury Department, will be in the minority. Credit men, therefore, should be particular to see that any transactions with firms so affected are handled properly and in accordance with the requirements of our Government. It is recommended that you keep informed regarding present regulations and arrange with your local Federal Reserve Bank to have them place your name on the mailing list so that you can obtain copies of any new amendments to the Freezing Control Regulations as they are issued.

## So's Your Old Man

Two truck drivers were all snarled up in the traffic at the intersection at West Broadway and Chambers Street, New York City. One of the drivers lost his temper and yelled at the other one: "Why don't you look where you're going, you great, big, cross-eyed, bowlegged, knock-kneed, son of a blankity blank, blank! blank! blank!! \* \* \* pie-eyed dumbbell!!" The other driver smiling sweetly said, "You're nice looking, too, buddy."

## New Bond Law on Supply Contracts

**S.** 1059 entitled, "A bill to expedite the national defense by clarifying the application of the act of August 24, 1935 (49 Stat. 793), as to the requirement of mandatory performance and payment bonds in connection with supply contracts," has been passed by Congress and signed by the President.

It provides: "That the act of August 24, 1935 (49 Stat. 793), may, in the discretion of the Secretary of War and the Secretary of the Navy be waived with respect to contracts for the manufacturing, producing, furnishing, construction, alteration, repair, processing, or assembling of vessels, aircraft, munitions, material, or supplies of any kind or nature for the Army, or the Navy, regardless of the terms of such contracts as to payment or title: Provided, That as to contracts of a nature which at the date of passage of this act, would have been subject to the provisions of the act of August 24, 1935 (49 Stat. 793) the Secretary of War or the Secretary of the Navy may require performance and payment bonds as provided by said act."

In previous years the Association has gone on record in opposition to a system of salaried referees not because the Association opposed the premise, but because sufficient study had not been given to practical ways and means of making the change. It now appears that a system of salaries for full time referees has been made feasible by H. R. 4394. This Bill represents careful, thorough and complete study of the subject by all having to do with Bankruptcy Administration.

### Newark announces defense essay contest

Newark—The New Jersey Chapter, NIC, has announced a competition open to any member of the New Jersey ACM, the New Jersey Credit Women's Club, or the local Chapter. A prize of \$10 is offered for the best essay of not more than 1,000 words on the subject: "How Can the Credit Executive Best Handle the Problems Created by the Defense Program?"

All essays must be received by Sec. William H. Whitney of the N. J. ACM not later than October 1.

The winning essay will be published in "CREDIT AND FINANCIAL MANAGEMENT" in the issue following the announcement of the winner.

# The Business Thermometer:

**S.** Sales of wholesalers advanced 32 percent in June over the same month a year ago, according to an announcement released today by J. C. Capt, Director of the Census. This 32 percent gain exceeds all previous year-to-year gains recorded by this series during the past five years, except the May 1941 record

which was also 32 percent. These gains in the second quarter of the year brought the record for the six-month period up to a 26 percent gain over the first half of 1940. The first quarter had ended 21 percent ahead of the first 3 months of 1940. Sales of 24,094 independent retail stores amounted to 18 percent over a year ago for both the month of June and the year to date, according to another monthly survey of the Bureau of the Census.

In connection with this monthly study conducted jointly by the National Association of Credit Men and the Bureau of the Census, 2845 wholesalers, representing all parts of the country, reported dollar sales amounting to \$272,210,000 in June, which were 1 percent below May 1941.

For the first half of 1941, all of the 35 kinds of business reported sales to be higher than during the same period of 1940. Led by wholesalers of metals with a 78 percent rise, all durable goods lines reported distinct increases, a trend indicated by the monthly data in previous issues of this report. Beginning with this issue, the Bureau of the Census will publish each month the year-to-date comparisons of trends in sales.

The cost value of inventories on hand at the end of June for 1,693 wholesalers rose 1 percent from the beginning of the month, and was 20 percent over June 30, 1940. The gains of 1 percent during April, May and June contrast with the decreases usually occurring during these months. The increase over a year ago is the largest recorded by this series during the three years during which these data have been collected. The ratio of stock to sales of 144 for June 1941 is, however, sharply under the figures of 167 for June 1940.

Collections on accounts receivable for 2,266 wholesalers were more favorable in June of this year than those reported by these same establishments for June 1940. Collections during June equaled 78 percent of accounts receivable as of June 1, compared with collection percentages of 74 for June 1940 and 79 for May 1941. Continuing to reflect recent expansions in sales volume, accounts receivable were 28 percent greater on June 1, 1941, than at the same date in 1940, and 4 percent higher than on May 1, 1941.

Detailed figures are presented in the following tables in summary for the United States and, insofar as the data permit without disclosing individual operations, by geographic divisions.

### Position Open

An Illinois organization, operating retail lumber and fuel yards, seeks a credit man of mature years to work at contacting customers with past due accounts. He would have his own car and would be allowed car expense. Salary—\$125 per month.

If interested, please communicate with Box 8-HA, Credit and Financial Management, One Park Ave., New York.

### Akron elects officers

Akron—At the annual meeting and golf tournament of the Akron ACM held at Sleepy Hollow Country Club, July 12, the following new officers were elected: *Pres.*—E. W. Alexander, Summit Wholesale Grocery Co.; *Vice Pres.*—R. R. Hoskins, National Rubber Machinery Co.; *Sec.-Treas.*—E. E. Heinton, Bruner-Goodhue-Cooke-Cranz, Inc.

### Badgerites Meet in October

Oshkosh—The Wisconsin State Conference of credit executives will be held in Oshkosh around the middle of October. Present plans call for this one-day conclave to be held on either the 14th or 15th. Definite announcement will be made later together with information as to speakers and other program details. The program committee has already decided, however, to have four feature addresses.

### Whitney Mentions N.A.C.M.

New York—Cornelius Vanderbilt Whitney, Chairman of the Board, Pan American Airways System, opened his broadcast on July 15 over the network of the Columbia Broadcasting System with this sentence: "Several weeks ago I spoke in New Orleans as a guest of the National Association of Credit Men . . ."

Mr. Whitney was one of the featured speakers at the New Orleans Credit Congress of the NACM in May and an article based on that talk was presented in the July issue of "CREDIT AND FINANCIAL MANAGEMENT."

Turn to Page 40 for tables mentioned

# WHOLESALESAERS' accounts receivable and collections, June 1941

Kind of Business	Number of firms reporting	Collection Percentages*			Accounts Receivable		
		June 1941	June 1940	May 1941	Percent change June 1941 from		As of June 1, 1941 (000's)
					June 1940	May 1941	
Automotive supplies.....	147	68	62	68	+18	+2	\$4,314
Chemicals (industrial).....	19	89	72	85	+20	+1	1,078
Paints and varnishes.....	32	54	48	52	+22	+10	1,765
Clothing and furnishings, except shoes.....	42	54	49	55	+15	-7	2,390
Shoes and other footwear.....	28	52	49	49	+30	-7	11,396
Coal.....	12	85	67	88	+46	+35	2,207
Drugs and sundries (liquor excluded).....	53	76	70	78	+5	-1	6,894
Dry goods.....	101	50	44	50	+23	+2	23,375
Electrical goods.....	309	79	77	80	+56	+8	43,103
Dairy and poultry products.....	18	122	117	126	+14	+5	1,445
Fresh fruits and vegetables.....	60	141	134	147	+1	+9	1,162
Farm supplies.....	6	80	75	85	+15	-24	837
Furniture and house furnishings.....	54	55	52	54	+33	+6	10,201
Groceries and foods, except farm products.....	475	100	96	100	+12	+3	40,977
Full-line wholesalers.....	233	90	88	93	+9	+1	16,253
Voluntary-group wholesalers.....	129	100	96	100	+10	+3	15,389
Retailer-cooperative warehouses.....	17	183	184	171	+18	-3	1,786
Specialty lines.....	96	102	95	101	+20	+6	7,549
Confectionery.....	14	72	68	74	+11	+1	388
Meats and meat products.....	86	160	157	173	+27	+16	13,311
Beer.....	16	130	163	141	+21	+13	160
Wines and liquors.....	31	79	75	83	+17	+5	5,048
Total hardware group.....	357	64	58	64	+39	+3	58,223
General hardware.....	131	59	54	60	+27	+4	38,030
Industrial supplies.....	114	79	71	80	+56	+4	11,162
Plumbing and heating supplies.....	112	66	61	66	+43	+2	9,031
Jewelry.....	31	23	19	22	+26	+8	5,162
Optical goods.....	21	67	53	65	+4	-1	341
Lumber and building materials.....	34	72	74	76	+26	+8	3,644
Machinery, equipment and supplies, except electrical.....	55	64	59	65	+42	+7	5,518
Surgical equipment and supplies.....	26	54	51	53	+17	+3	1,121
Metals.....	27	99	85	104	+65	+2	4,012
Paper and its products.....	82	71	65	69	+16	+4	6,321
Petroleum.....	6	133	125	131	+23	+6	1,039
Tobacco and its products.....	88	117	118	117	+8	+1	6,104
Leather and shoe findings.....	8	47	41	52	+4	+3	183
Miscellaneous.....	28	93	85	110	+27	+2	4,074
United States.....	2,266	78	74	79	+28	+4	\$265,793

\* Collection percentages are obtained by dividing the collections by accounts receivable for an identical group of firms.  
† Less than 0.5 percent.

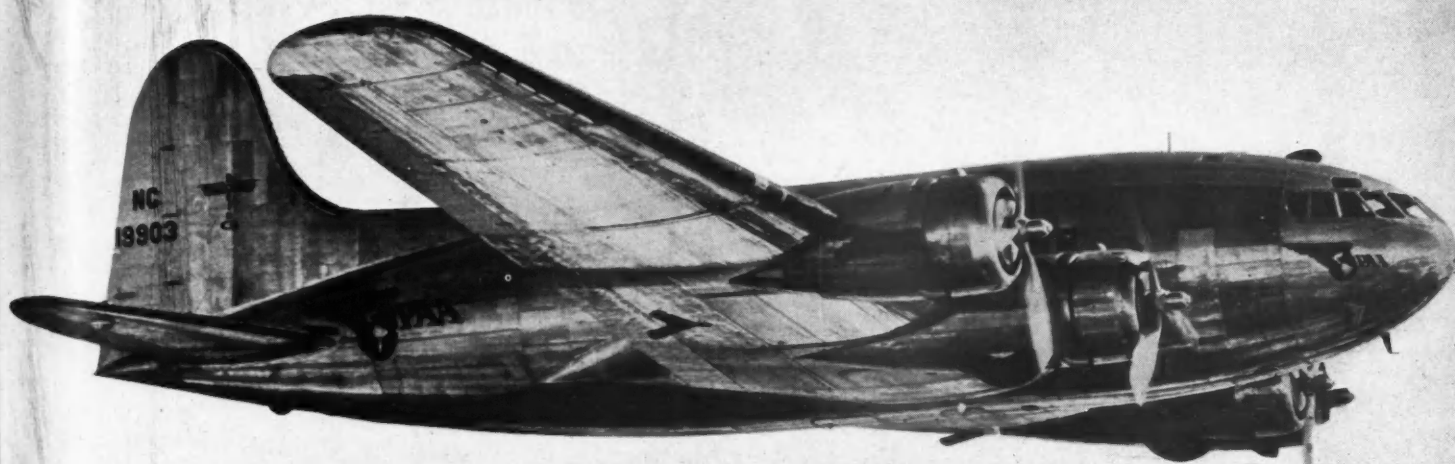
# WHOLESALESAERS' sales and inventories, June, 1941

Kind of Business	Sales—Current Month				Sales—Year-to-Date		Inventory—End-of-Month (At Cost)			Stock-Sales Ratios*			
	Number of firms reporting sales	Percent change June 1941 from		June 1941 (000's)	Percent change from 6 Mos. 1940	6 Mos. 1941 (000's)	Number of firms reporting stocks	Percent change June 1941 from		June 30, 1941 (000's)	June 1941	June 1940	May 1941
		June 1940	May 1941					June 1940	May 1941				
Automotive supplies.....	181	+40	+ 4	4,614	+20	30,070	91	+ 6	- 2	4,627	194	246	207
Chemicals (industrial).....	19	+48	+ 2	1,010	+39	10,469	14	+17	+12	474	62	81	56
Paints and varnishes.....	65	+43	+ 3	3,280	+32	16,612	17	+ 6	- 3	1,052	139	169	128
Clothing and furnishings, except shoes.....	49	+35	-33	1,423	+44	18,588	27	+ 6	+ 9	1,552	242	271	185
Shoes and other footwear.....	31	+64	-16	11,608	+41	79,267	19	+ 4	+21	7,031	137	262	94
Coal.....	12	+72	- 9	1,823	+34	11,576	—	—	—	—	—	—	—
Drugs and sundries (liquor excluded).....	128	+13	- 3	17,186	+10	118,767	37	+ 6	+ 3	7,102	209	226	190
Dry goods.....	111	+56	+ 4	13,165	+27	76,225	62	+17	+ 5	22,355	251	317	244
Electrical goods.....	340	+61	- 1	38,156	+59	227,840	295	+30	- 2	30,874	85	106	86
Dairy and poultry products.....	21	+29	- 4	2,134	+10	13,451	11	+44	+30	417	71	57	57
Fresh fruits and vegetables.....	78	+15	+10	4,735	+ 8	26,198	56	+24	+ 6	609	29	28	27
Farm supplies.....	9	+18	-34	254	+16	4,828	—	—	—	—	—	—	—
Furniture and house furnishings.....	65	+56	- 7	6,581	+36	47,529	36	+18	- 1	8,825	193	252	181
Groceries and foods, except farm products.....	627	+12	- 2	52,233	+11	370,170	377	+21	+ 1	45,040	150	141	145
Full-line wholesalers.....	332	+12	- 1	20,475	+10	147,731	191	+20	- 1	20,041	172	159	167
Voluntary-group wholesalers.....	157	+9	- 1	19,441	+ 9	137,519	105	+18	- 1	15,884	164	154	166
Retailer-cooperative warehouses.....	23	+15	- 4	3,845	+15	22,942	12	+19	+ 7	3,215	132	130	119
Specialty lines.....	115	+18	- 5	8,472	+13	61,978	69	+34	+ 6	5,900	94	86	85
Confectionery.....	23	+ 8	+ 2	383	+11	3,476	12	+14	- 1	270	118	109	117
Meats and meat products.....	98	+38	+ 3	22,884	+22	131,302	72	+33	+ 2	6,802	62	67	61
Beer.....	37	+ 1	+ 7	722	+ 6	2,833	26	+23	- 1	192	37	30	40
Wines and liquors.....	34	+14	- 1	4,906	+14	29,094	24	+31	+10	7,096	176	115	159
Liquor department of other trades†.....	39	-14	- 3	4,549	+14	26,053	—	—	—	—	—	—	—
Total hardware group.....	382	+51	+ 4	44,189	+47	259,906	250	+25	- 1	66,975	207	250	213
General hardware.....	142	+41	+ 2	26,179	+36	146,928	95	+24	- 1	49,635	238	271	248
Industrial supplies.....	127	+76	+ 5	10,860	+68	79,202	88	+25	+ 3	12,397	156	227	163
Plumbing and heating supplies.....	113	+63	+12	7,150	+56	33,776	67	+32	- 4	4,943	138	162	160
Jewelry.....	38	+51	-10	1,797	+41	12,041	20	+10	+ 8	2,487	315	425	220
Optical goods.....	24	+38	+ 9	299	+18	1,997	11	+12	+ 2	169	137	156	138
Lumber and building materials.....	36	+31	- 3	2,746	+47	20,515	25	+ 1	- 5	2,336	111	153	114
Machinery, equipment and supplies, except electrical.....	64	+66	- 4	4,458	+56	27,034	40	+17	- 3	5,198	171	251	173
Surgical equipment and supplies.....	27	+36	+ 9	706	+14	6,723	14	+ 9	0	557	119	159	134
Metals.....	29	+97	+ 3	4,171	+78	36,892	20	+ 5	+ 1	4,342	133	244	129
Paper and its products.....	94	+26	- 1	5,216	+18	40,060	48	+ 7	+ 5	3,415	135	158	130
Petroleum.....	8	+35	+ 8	1,529	+ 4	52,393	6	+19	+15	774	51	58	48
Tobacco and its products.....	139	+ 1	- 2	10,265	+ 4	80,716	51	+12	+ 2	2,057	54	49	53
Leather and shoe findings.....	9	+50	- 1	187	+12	1,058	—	—	—	—	—	—	—
Miscellaneous.....	28	+41	- 5	5,002	+30	31,160	32	+ 3	- 2	7,192	139	191	133
United States.....	2,845	+32	- 1	\$272,210	+26	\$1,814,843	1,693	+20	+ 1	\$239,820	144	167	141

\*These stock-sales ratios are percentages obtained by dividing stocks by sales for an identical group of firms. —Insufficient data to show separately.  
†Not affiliated with voluntary or cooperative groups. ‡Less than 0.5 percent. †Chiefly of the wholesale drug trade.

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MANAGEMENT

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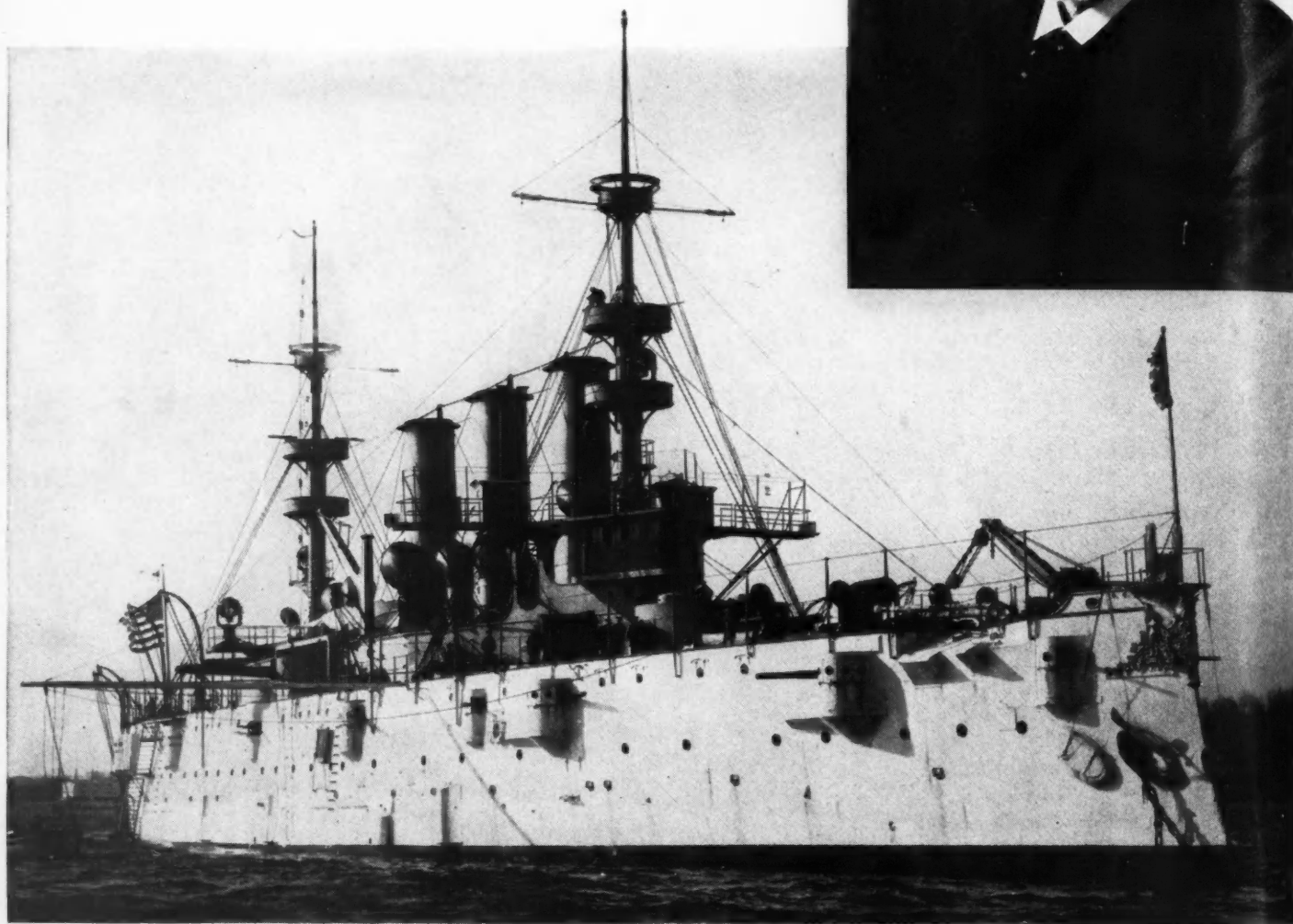
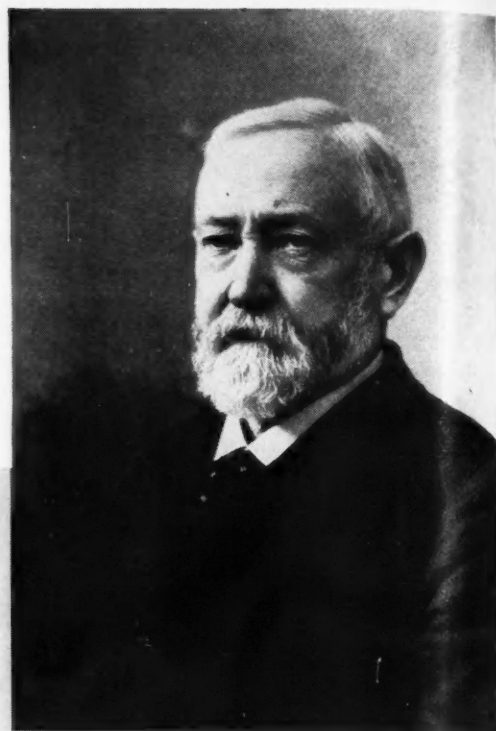
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Commercial Credit Analysis — Part V — 10 First Credit Institute — 13  
U.S. Regulations on Instalment Sales — 18 Did I Handle That Order Correctly? — 26  
How to Get National Defense Contracts — 17

CHECK & PASS

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# IN 1891

Benjamin Harrison was president of the United States. He was nominated by the Republican party in 1887 and defeated Grover Cleveland, Democratic candidate. In 1891, the third year of his term, the armored cruiser "New York" was launched at Philadelphia.



*The "New York," authorized by Act of Congress in 1888, and of 8,900 tons displacement, was the flagship of Admiral Sampson during the Spanish-American War.*

● In 1891 the Queen Insurance Company of America was incorporated in New York State. For fifty years it has been closely identified with the country's in-

dustrial development and has made notable contributions to the rebuilding of population centers devastated by conflagrations, windstorms and other disasters.

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